REPORT TO THE MINISTER OF
GOVERNMENT AND CONSUMER SERVICES

<u>IT'S ALL ABOUT LEADERSHIP</u>:

STRATEGIC VISION AND DIRECTION FOR THE ONTARIO HORSE RACING AND BREEDING INDUSTRY

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EXECUTIVE SUMMARY

The horse racing and breeding industry in Ontario requires a strategic vision and direction for the future. It now finds itself within a huge gaming/entertainment industry and customers with leisure dollars to spend have many and varied choices.

The horse racing and breeding industry is labour intensive and supports approximately 55,000 full and part-time jobs, many of which are in the agricultural sector of Ontario and would be difficult to replace. In the past, the government has been supportive of the industry by virtually eliminating the tax on pari-mutuel wagering and by introducing a Slot at Racetracks Program that injects millions of dollars into the industry each year.

The industry derives its income from three sources: wagering on horse races, the sale of Ontario-bred racehorses and slot revenue. The slot program was designed to permit the industry to invest in its future by growing its wagering and breeding sectors.

The slot program is now 10 years old and has had mixed success. It was introduced without specific direction as to how slot revenue should be spent and without benchmarking. Industry stakeholders were left to invest the revenue in ways that would enhance wagering and breeding that would lead to positive results.

OHRIA, the industry association, played a significant role in securing a tax reduction and the introduction of slots at the racetracks. However, due in large measure to its structure for decision-making, it has failed to become an effective economic regulator for the industry.

On a broader scale, the province lacks a comprehensive gaming strategy, and the horse racing and breeding industry lacks a focal point within government for the consideration of policy related to the industry’s relationship with other gaming sectors.

This Report recommends not only a new structure for the industry association but also the creation of a ‘Gaming Secretariat’ within government that would develop and implement a comprehensive gaming strategy that includes the horse racing and breeding industry. At the industry level, the new industry association, Horse Racing Ontario (HRO), should have a Board of Directors comprised of representatives of industry stakeholders and the addition of three government

appointees and one representative of the Quarter Horse Industry. Among other things, it would take over the economic regulation of the industry including: a) the fixing of race dates, b) the development of the details of an industry strategic plan, c) the structuring and administration of all province-wide programs such as the HIP Program and the Quarter Horse Industry Development Plan, d) the oversight of the expenditure of funds generated by the tax reduction, and, e) the branding of horse racing and the development of an industry-wide marketing strategy. The decisions of the Board would be governed by a majority decision.

The role contemplated for HRO is much broader than that performed in the past by OHRIA. As HRO will be responsible for the ultimate structure and administration of programs that are recommended in this Report with respect to the use of some of the slot revenues, **the ability of HRO's new Board to come together and work in the best interests of the industry as a whole is perhaps the single most important element for the future success of the horse racing and breeding industry in Ontario**.

Because it is intended that HRO will take on the economic regulation of the industry, the Ontario Racing Commission that had, by default, performed these functions, would return to its traditional mandate of regulating all aspects of horse racing that are designed to protect the public interest by insuring the highest level of integrity.

The Panel fully supports the continuation of the Slots at Racetracks Program at a minimum level of 20% of the revenue generated from slot machines at the racetracks. However, we also recommend that the Program be adjusted to better meet the objectives of enhancing wagering on Ontario product and enhancing the breeding of Ontario racehorses.

It is recommended that when the New Slots Program can be implemented, the annual slot revenue be pooled and distributed on the following basis: 25% of the slot revenue generated at each racetrack would be paid to the racetrack and 25% would be paid to that racetrack's respective horsepeople for purses.

Funds would then be allocated out of the balance of the pooled revenue (approx. 10% of the balance) to cover four industry-wide initiatives: funding the operations of HRO, branding and generic marketing of Ontario horse racing, research, and developing innovative technology and new betting products.

Funds should also be allocated out of the pooled revenue (approx. 90% of the balance) to support three recommended programs that are targeted to enhance

wagering on Ontario horse racing product and the breeding and sale of Ontario-bred racehorses: i) a program directed to fund restricted races for Ontario-breds, ii) a program that pays bonuses by way of purse money to the owners and breeders of Ontario-breds, and, iii) a program that pools and redistributes a portion of standardbred purse monies and pays an equivalent amount to the racetracks that receive such funds for purses.

These three programs would flow a substantial amount of slot revenue back to racetracks and horsepeople for purses in addition to the 25% of slot revenue that each group will receive by way of direct payments. Two of the three programs are incentive based, as the funds available to each racetrack would be allocated in accordance with that racetrack's ability to grow wagering on its live product.

The Report recommends that all of the slot revenue flowing to racetracks and horsepeople be subject to benchmarking designed to measure the effect of slot revenue on the enhancement of wagering on Ontario product and the breeding sector. Benchmarking will be based on criteria that follow the people, the horses and the money. Racetracks and horsepeople would be expected to invest slot revenues in ways that will meet the objectives of the Program.

The Report sets out a number of transitional alternatives for commencing the New Slot Program. Early commencement of the Program is encumbered by the existence of the outstanding Site Holder Agreements between Ontario Lottery and Gaming (OLG) and each racetrack that are due to expire at varying times between 2008 and 2021. The Report recommends that the new Program commence on January 1, 2012, when all but five of the Site Holder Agreements will have expired. All those due to expire before that date would be extended on their existing terms until December 31, 2011.

HRO should set an aggressive time-line for the development and implementation of innovative wagering products, new and improved methods of delivery, new types of races and new partnerships.

The Report recommends that HRO establish a budget for research and education, and that it support organizations that arrange for the adoption of racehorses after their racing careers have ended. In addition, HRO should work with the new Gaming Secretariat to ensure that appropriate problem-gambling programs are developed and delivered to people who wager on horse races.

Finally, the Report addresses the particular problems that exist for 'border racetracks' such as Windsor Raceway, Fort Erie Racetrack, Hiawatha Horse Park

and Rideau Carleton Raceway. In addition, it addresses the problems of racetracks such as Woodbine that compete with the OLG commercial-type casinos at Niagara Falls and Orillia. The Report suggests that government should consider supporting the plans of some of these racetracks on an economic development basis to diversify their offerings in order to secure their ability to offer horse racing products. The Report speaks to the future ability of the Gaming Secretariat to consider the difficulties that these racetracks are experiencing in the context of a broader gaming strategy. This strategy should be designed to enhance existing individual operations with a view to meeting the policy objective of sustaining jobs in the agricultural sector of the province rather than simply maximizing provincial gaming revenue.

INTRODUCTION

On July 5, 2007, the former Minister of Government and Consumer Services, Gerry Phillips, appointed a three-person Strategic Planning Panel to develop a strategic vision and direction for the Ontario Horse Racing and Breeding Industry. The Panel is comprised of Stanley Sadinsky Q.C., Chair, Jane Stewart and William McDonnell.

The Panel was charged with the task of examining the state of the horse racing and breeding industry (hereinafter referred to as "the industry") and the development of a strategic vision and direction that identifies the challenges and opportunities that the industry faces, within the current gaming environment, in order to best ensure its continued growth in the future. The Panel was asked to report to the Minister in the spring of 2008.

The Panel's Terms of Reference are as follows:

a) Describe the current state of the industry of Ontario and trace its development and progress over the past decade;
b) Describe the position of the industry within the existing gaming environment of Ontario;
c) Identify the challenges and opportunities facing the industry and develop a strategic vision and direction designed to sustain the industry's viability and competitiveness;
d) Develop criteria and performance benchmarks for the industry that will establish goals for industry sustainability; and,
e) Make recommendations regarding the future role and structure for industry collaboration and representation that will enable it to contribute to the achievement of the goals of the strategic direction being developed for the industry.

By letter dated July 31, 2007, the Panel wrote to industry stakeholders, government ministries and agencies and other interested parties inviting them to provide the Panel with written input on any or all of the Terms of Reference and on any other matter that the Panel should consider. Written input was requested on or before September 23, 2007. The Panel also invited all parties to indicate whether they wished to meet with the Panel.

The Panel received a total of 25 written submissions and met with 21 interested parties (57 individuals). A list of those who responded in writing

to the Panel is attached as Appendix “A”. A list of those with whom the Panel met with is attached as Appendix “B”.

The input provided to the Panel by industry stakeholders, government ministries and agencies and other interested parties was invaluable to the work of the Panel. Without exception, all parties exhibited an unwavering commitment to the well being of the industry and its future within the broader gaming and entertainment markets.

The Panel also retained the services of HLT Advisory to conduct research and provide data on:

a) How the horse racing and breeding industry has impacted the economy of Ontario over the past decade; how revenues from slot machines at the race tracks have impacted the industry and how those revenues have been distributed and spent by the industry; and how salaries and wages within the industry have evolved over the past decade and whether there is a link between employment and the number of race dates.
b) A scan of jurisdictions where slot revenues are directed to the horse racing and breeding industry; how those revenues are distributed and the benchmarks that exist to monitor the funds and ensure program success; an analysis of the existing and potential markets for racing products in Ontario and how other jurisdictions have been able to maintain and grow consumer interest in the sport; and the governance structures of industry-wide organizations and memberships that exist within Ontario and elsewhere.

The report of HLT Advisory Inc., Volume I: Market and Economic Overview is appended as Appendix “D”; Volume II: Jurisdictional Scan of the North American Horse Racing Industry is appended as Appendix “E”; Volume III: Racetrack Statistical Profile is appended as Appendix “F”; and the Key Findings Report is appended as Appendix “G”.

CHAPTER 1

HISTORICAL OVERVIEW AND THE HORSE RACING AND BREEDING INDUSTRY IN TODAY'S GAMING/ENTERTAINMENT ENVIRONMENT

Horse racing has been a part of the sporting culture of North America for over 200 years. The racing and wagering on thoroughbred horses was originally confined to the wealthy and landed classes of society and their entourages and acquired the appropriate and long-standing moniker of the "Sport of Kings". Racing and wagering on standardbred horses grew within farming communities and was most often conducted at rural agricultural fairs and gatherings. Generally speaking, while both activities involved the racing of horses, for many years the people that participated in each sport came from very different backgrounds.

Ontario has had a long experience with the organized racing of and wagering on both breeds. Today, there are two thoroughbred racetracks, 15 standardbred racetracks and one quarter horse racetrack in Ontario. Ontario has by far the largest number of horse racing facilities of any Province of Canada or State of the United States of America.

Prior to 1985, legalized gambling in Canada consisted of a handful of lotteries operated by both the federal and provincial governments, pari-mutuel wagering on horse racing, and licensed bingo, raffles and Monte Carlo events for charitable purposes. By and large, the horse racing industry held a virtual monopoly on legalized gambling considering its size in comparison to the other legal gambling activities.

This proved to be both a blessing and a curse. The blessing was that the competition for the legal gambling dollar in Ontario was very limited and did not attract the same type of bettor as did the other gambling activities. However, there was and always has been a very substantial illegal gambling 'industry' largely comprised of the bookmaking of bets on all kinds of sporting activities including professional football, hockey, baseball, basketball and even horse racing. In addition, with the growth of two meccas of gambling in the United States, Las Vegas and Atlantic City, many of Ontario's serious gamblers went abroad to engage in their passion.

The curse that came along with the blessing of near-exclusivity was that a 'culture of entitlement' grew up within the horse racing industry of Ontario. Various stakeholders considered that with a virtual monopoly, they needn't

concern themselves overly with their customer base and most of their energy was consumed by arguing with one another as to how the revenue should be shared. For the most part, but with some notable exceptions, they ignored the effective marketing of their product and the upgrading of their facilities. Customer service was not a high priority.

In 1985, the federal government decided to withdraw from the lottery business and turn it over to the provinces. In return, the provinces provided the federal government with financial assistance to help fund the Winter Olympic Games being held in Calgary. At this time, the only types of lotteries being conducted involved the traditional sale of lottery tickets followed by a draw or selection of winning numbers that led to the awarding of prizes. No one (at least on the federal side) seemed to appreciate that slot machines, video lottery terminals (VLTs) and most types of games that were being played in casinos in other jurisdictions fell within the definition of "lottery schemes" that were transferred to the provinces.

Soon after, provincial lottery activities in Ontario and elsewhere in Canada expanded considerably. In 1992, Ontario began to plan for the opening of a commercial-type casino in Windsor. It also became clear that the province was about to expand its provincially owned gambling facilities further in a significant way.

By this time, horse racing was competing for more than the gambling dollar. The entire leisure and entertainment industry was undergoing a major transformation with the introduction of new facilities and the use of innovative technology. In addition, most professional sports were being widely broadcasted on television. Horse racing in Ontario and elsewhere was not widely disseminated except for a few major events such as the Queen's Plate and the North American Cup in Ontario and the Triple Crown of thoroughbred races in the United States. The typical horseplayer was an aging male and little was being done to attract a new, younger and diverse audience that was being exposed to so many other forms of entertainment.

Prior to 1994, the industry was in a state of serious decline, especially the racetracks. It had, for the most part, overlooked its opportunity to capitalize on its previously held near-monopoly and to invest in the future. It had largely failed to become innovative with its product, to improve its facilities, to attract new horse owners and to reach out to a broader audience that had become accustomed to demanding and receiving exciting entertainment experiences.

Notwithstanding its decline, the industry remained an important segment within the Ontario economy and was very much a part of the social fabric of the province, albeit a part of the fabric that was fraying at the edges.

With the assistance and encouragement of the government of the day, the Ontario Horse Racing Industry Association (OHRIA) was created in 1994 for the purposes of bringing the various stakeholders in the industry together and planning for its future collective growth and long-term viability. It was estimated at that time that there were approximately 24,000 jobs related to the industry, and it was the third largest sector in the overall agricultural economy of Ontario. It was also recognized that many of these jobs involved unskilled labour and would be difficult to replace. The government was committed to assisting the industry in order to permit it to compete successfully in the expanding gaming/entertainment market and to sustain the agricultural economy of rural Ontario.

In 1996, OHRIA persuaded the government to virtually eliminate the tax on pari-mutuel wagering so as to align its tax structure with those of other major horse racing jurisdictions. This left approximately $55M a year with the industry. These funds were earmarked by government for specific industry-improvement purposes. The monitoring of the expenditure of these funds was overseen by the industry's regulator, the Ontario Racing Commission (ORC).

Furthermore, as the government proceeded to add to its provincially operated gambling facilities, OHRIA began to lobby the government to introduce VLTs (subsequently, slot machines) at racetracks with a share of the revenue going to the industry. The government agreed, and in December 1998 the first "Slots at Racetracks" facility was opened at Windsor Raceway. This was followed with the opening of slot facilities at 16 other racetracks between 1999 and 2007. While the stated objectives of the Slots at Racetracks Program (the "Program") referred to the enhancement of live racing, sustaining the agricultural sector and the generation of revenue for general provincial purposes, clear benchmarks were not put in place to monitor its benefit to the industry. Rather, the government rushed forward to open slot facilities at racetracks as quickly as it could.

The Program allocated 20% of the revenue from the slots at the racetracks to the industry with half going to the horsepeople for purses and half going to the racetracks in order, presumably, to permit them to provide appropriate space for the slot facility, to improve their racing infrastructures and to market their racing product. Given that gambling on slot machines would be taking place within the

same facility where wagering on horse racing was being conducted, the government accepted that there would be cannibalization of pari-mutuel wagering and this was taken into account in determining the industry's share of the slot revenue. The allocation of the number of slot machines to each racetrack took into account the extent of racing that was being conducted at each track and the overall nature and demographics of its market area. Notwithstanding the differences that existed between each location, the '20% formula' was applied across the board.

With respect to the funds going to purses, it was expected that this would have the effect of attracting new horse owners and improve the quality and quantity of horses of both breeds. It was expected that there would be a 'trickle-down' effect to the breeding industry as higher purses would increase the demand for horses, and breeders would respond by increasing and improving their sire and broodmare inventories.

It was anticipated that the benefits to the industry from slot revenue would allow the industry to successfully compete with other provincially operated gambling operations that soon included a variety of lottery products, four commercial-type casinos and six charity casinos. In addition, competition was increasing in states and provinces that bordered on or were close to Ontario such as Michigan, New York, Pennsylvania and Quebec.

Even with more and more legalized gambling becoming available in Ontario, illegal gambling did not disappear. Technology introduced gambling on the internet where residents of Ontario could gamble on-line at sites situated in mostly offshore tax havens such as Barbuda and Aldernay. Money could be bet offshore on an Ontario horse race and the industry in Ontario would receive no benefit except perhaps for a fee for a racing video signal. Illegal bookmakers continued to operate in Ontario and receive bets on horse races being conducted in Ontario. Some gamblers prefer to bet with 'bookies' rather than at racetracks, teletheatres or utilizing Woodbine Entertainment Group's (WEG) telephone account network because many bookmakers extend credit.

Accordingly, the Ontario horse racing and breeding industry now finds itself within a huge and diverse gambling/entertainment marketplace with each segment competing for customers' discretionary dollars. Gamblers in Ontario have a very large gambling menu to choose from, including betting on horse races (whether those races take place in Ontario or elsewhere), playing the lotteries, gambling on the many slot machines, card games, roulette and craps tables at commercial-type and/or charity casinos located in Ontario, playing

bingo, traveling out of Ontario to neighbouring jurisdictions to gamble in all of its forms, and, gambling on the internet on sports events, horse races, a variety of casino games that include VLTs, slot machines and card games including blackjack and the very popular Texas Hold'em poker game.

The days of the horse racing monopoly have long gone. The days of failing to respond adequately to or consider the needs of customers are long past and will never return. What was a 'supply' based attitude in some sectors of the industry must change to a 'demand' based approach in all of its sectors. The horse racing product must become attractive to the betting consumer; otherwise, the industry is unlikely to survive. Customers will vote with their dollars and unless the industry can find ways to attract those dollars to its core racing product, it will be out of business.

This Report is designed to develop a strategic vision and direction that will assist the industry in developing the details of a Strategic Plan for the industry to follow in order to put it on the right path toward economic success and long-term viability. In order to forge the appropriate path forward, hard decisions will have to be made. There may be casualties along the way. This is inevitable given that the industry has a lot of catching-up to do.

The situation that the industry finds itself in is principally but not entirely of its own doing. While government has taken significant steps to assist the industry financially, government has failed to develop an overall gambling policy and strategy for the province. As will be discussed below, this has left the industry in a vacuum in terms of its role and place within the gambling sector. Significant problems have arisen because government did not establish and impose performance benchmarks in relation to the Slots at Racetracks Program and in placing some of its provincially operated gambling facilities in direct competition with horse racing. This has led to decisions that did not always take into account their impact on the horse racing sector. In introducing the Program and developing a revenue sharing formula, the government also failed to take into account the unique characteristics of each horse racing facility. This resulted in the establishment of a formula that did not necessarily serve the overall interests of the industry.

Finally, it is important to recognize from the outset the importance of Woodbine Entertainment Group (WEG) to the horse racing and breeding industry as a whole. WEG, by virtue of its size, structure, investment and leadership, represents the flagship of the industry in Ontario and is recognized as such throughout North America. Decisions with respect to the future direction of the

industry should be mindful of their potential impact on WEG so as to ensure that Ontario continues its leadership and innovative role.

Before considering the frameworks for the future direction of the industry, we pause to consider the importance of the industry to the Ontario economy and the impact of the Slots at Racetracks Program on the industry over the past decade.

CHAPTER 2

THE IMPORTANCE OF THE HORSE RACING AND BREEDING INDUSTRY ON THE ECONOMY OF ONTARIO

Ontario is home to a world-class horse racing and breeding industry. It is the largest horse racing jurisdiction in Canada and the third largest in North America. It is an industry of which the province is justifiably proud. A significant reason for this pride is the valuable and considerable impact the industry has on the Ontario economy, most particularly the province's rural economy.

As part of the agricultural economy of Ontario, horse racing and breeding ranks second in order of size based on total 2005 wagering of $1.2B. Only the dairy products segment with 2005 sales of $1.6B is larger. The next largest segments of the agricultural sector, according to sales in 2005, are floriculture and nursery ($987M), cattle ($883M), and hogs ($845M). Breeders, horsepeople and racetracks make significant purchases within this economy including goods (fencing, building supplies, trucks and trailers, tack, livestock and feed, bedding, etc.) and services (farrier, veterinary, harness and saddle makers, transportation, etc.).

In the last decade, there have been several studies completed by various authors that detail the economic importance of the horse racing and breeding industry to Ontario's economy. These studies have recently been reviewed for purposes of this Report, and are referenced in its supporting research documents. (HLT, January 2008, Vol. II, Sec. 3) While methodologies differ, there is a common message in all the reports, which can be summarized as follows. The industry, as traditionally defined, consists of three components: breeders, horsepeople and racetracks. Each segment has significant and complex linkages to the agricultural manufacturing sector, the agricultural services sector and the rural economy in general. All segments are labour and capital intensive and therefore create important economic and employment opportunities for rural Ontarians through direct, indirect and induced means.

Confirming this conclusion, the most recent analysis by HLT Advisory (January, 2008, Vol. II, Sec. 3) as commissioned for this Report, used the spending of revenues minus operating expenses approach to measure the economic contribution of the industry. Overall, the industry had net revenues of $641M, including revenues from slots, available in 2006 for initial expenditure. (This figure does not include incremental new investment, as the study could not

satisfactorily measure this amount). With this base, the industry supported $774M in direct, indirect and induced labour income. In other words, for every dollar invested, the industry creates approximately $1.20 in direct, indirect and induced labour income.

According to the HLT analysis, this total industry labour income is equivalent to 24,569 full time jobs. 9,574 of these jobs are directly tied to the industry; 9,412 are indirectly supported by the industry and another 5,583 jobs are induced by the industry. In terms of industry components, the operation of racetracks supported 11,169 total equivalent full-time jobs, horsepeople supported over 12,000 jobs, and breeders supported another 1,350 jobs.

It should be recognized that many of these jobs are part-time in nature. As such, many more than 24,569 Ontarians count on the industry for part or all of their livelihood. In a recent study by Economics Research Limited (ERL), September 2007, it was estimated that between 25,000 and 30,000 Ontarians are engaged in the ‘equine side’ of the industry on a paid or unpaid basis. These full time equivalent jobs equate to 48,750 full time, part time and casual opportunities. ERL also concludes that with employment from the slot operations at the racetracks included, 40,040 Ontarians owe their permanent full-time jobs to the industry and its associated activities. ERL calculates that when part-time and casual labour is included, over 65,000 Ontarians rely on the industry and its related activities for some or all of their employment. Using this model, the approximately 24,500 full time equivalent jobs cited in the HLT report would equate to a total of approximately 40,000 full time, part time and casual jobs. Were one to include the employment sustained by the slot operations at the racetracks, approximately 55,000 Ontarians have jobs in the industry and its related activities.

The horse racing and breeding industry is increasingly part of the entertainment and tourism sectors. Horses at the racetrack and in the fields of rural Ontario help to establish host track and farm communities as destination points for tourists from within Ontario and outside its borders, both nationally and internationally.

In summary, the industry makes a critical and vital contribution to the economic and employment health of rural Ontario. Ensuring its preservation and continued development makes good economic sense for the province as a whole.

CHAPTER 3

THE ECONOMIC CHANGES WITHIN THE INDUSTRY OVER THE PAST DECADE

Almost a decade has passed since the implementation of the first Site Holder Agreement in December 1998 that placed slots at Windsor Raceway. Between 2000 and 2007, 16 additional Agreements have been negotiated and implemented. Sufficient time has passed to allow some assessment of the impact of the Slots at Racetracks Program on the horse racing and breeding industry in Ontario.

As generally stated in the Site Holder Agreements, the Slots Program at Racetracks is intended to promote live horse racing in the province and subsequently benefit the agricultural sector in Ontario. To review the performance of this stated intention, HLT research has collected and compared specific data from 1997 (pre-slots) to 2006.

While it is impossible to prove categorically that all of the changes that have occurred in the industry between 1997 and 2006 are attributable solely to the Slots at Racetracks Program, its introduction was the only significant event that occurred. We believe that the changes that we will outline are due almost entirely to the introduction of the Program.

As constituted and as previously stated in this Report, the Slots at Racetracks Program did not outline the outcomes or targets by which it would be assessed. Rather, it anticipated that the industry and its government partners would develop these measures jointly as part of the implementation plan. Our review has confirmed that no agreed benchmarks have been established to date. As such, we have selected and used a range of factors to measure results. These factors include:

- Revenues of racetracks, horsepeople and breeders
- Total wagering, win and "take-out"
- Wagering on Ontario product from within Ontario
- Wagering on foreign product (races run outside of Ontario)
- "Live wagering" (wagering at a racetrack, including wagering at off-track locations on that racetrack's product)
- Wagering on Ontario product from foreign jurisdictions
- Total purses

- Number of race days
- Number of starts and starters
- Number and value of foals, registered by breed
- Number of mares and stallions bred in Ontario by breed

The detailed research and analysis completed by HLT Advisory for the purposes of this Report are attached as Appendices to this Report. For the purposes of this Chapter, the results have been reviewed in a combined fashion to provide a macro analysis of the overall impact of the program, from 1997 to 2006.

Without doubt, there are positive impacts on the industry in Ontario as a result of the implementation of the Slots at Racetracks Program. There have, however, been some disappointing results as well. Further, there are signs that some pre-existing weaknesses in the industry are continuing or re-emerging despite the Program. Finally, there appear to be some trends that may constitute warning signs for the future health of the industry.

Some Positive Impacts

1) Ontario is the 3rd largest horse racing jurisdiction in North America:

In terms of total wagering, Ontario was the 7th largest horse racing jurisdiction in North America in 1997. As of 2005, it moved into the position of 3rd largest. Ontario remains 1st in terms of standardbred wagering in North America and is the largest jurisdiction in total and by breed in Canada. (HLT, January 2008, Vol. I, Sec. 2, p. 11)

2) Revenues are up for the industry in total and for all stakeholders:

The total economic base of the industry in 2006, as measured by stakeholders' revenue (racetracks, horsepeople and breeders) is approximately $641M. This is a $400M (166%) increase over the 1997 revenue base of $241M. Racetracks account for the majority of these revenues, followed by horsepeople and then breeders. Racetracks increased their revenues, as measured by take-out and slot wins less purses, by approximately $234M (229%) up from $102M in 1997 to $337M in 2006. Horsepeople increased their revenues as measured by purses by approximately $153M (126%) up from $121M in 1997 to $274M in 2006. Breeders increased their revenues as measured by sales of yearlings, by approximately $13M (71%) up from $18M in 1997 to $30M in 2006. (HLT, January 2008, Vol. I, Sec. 4, p. 96)

3) Total Wager has increased:

It was anticipated that as a result of the introduction of slots at racetracks, wagering would decline due to cannibalization. In fact, total pari-mutuel wagering increased marginally with the introduction of the Program. In 1998, the total pari-mutuel wager in Ontario was just over $1B. Wagering grew to a high of just over $1.2B in 2001, declining to just over $1.1B in 2006. (HLT, January 2008, Vol. I, Sec. 2, p.15)

4) Foreign Wager on Ontario Product has more than doubled:

Between 1997 and 2006, the foreign wager on Ontario horse races increased from approximately $248M to over $507M (104%). With the exception of Windsor Raceway, all racetracks that broadcasted their signal in 2006 attracted more foreign wagering than in 1997. (HLT, January 2008, Vol. I, Sec. 3, p.69)

5) The total number of Race Days and Races have dramatically increased:

In 1997, there were 1,431 race days and 14,746 races. By 2006, race days increased to 1,728 (21%) and races to 19,101(29%). From a breed perspective over the 1997 to 2006 period, 28 fewer thoroughbred race days (240 races) were run while 320 standardbred race days (4,526 races) were added. (HLT, January 2008, Key Findings, p. 24)

6) The increase in Race Days and Races has increased the number of Starts and Starters (only standardbred statistics available):

The increase of 4,526 standardbred races translated into a 37,732 increase in starts. The increase of 320 standardbred race days translated into a 3,285 (45%) increase in starters. (Starters represent the total number of horses that raced.) (HLT, January, 2008, Key Findings, p. 24)

7) The number of Annual ORC Licences issued has increased by over 25%:

Everyone in the industry that goes on the racetrack is required to be licensed annually. In 1997, the ORC licensed 22,059 people. By 2006, this increased to 30,285. In 1997, 9,331 of those licensed were owners. This compares to 12,609 owners in 2006, which represents a 35% increase. (HLT, January 2008, Key Findings, p. 38)

8) Labour Income and Employment (direct, indirect and induced) have more than doubled:

Between 1997 and 2006, the income of those directly employed in the industry has increased from $110M to $287M (160%). Labour income for direct, indirect and induced employment has increased from approximately $300M to $774M (158%)

In terms of full-time equivalent jobs, direct employment has increased from 4,223 jobs in 1997, to 9,574 jobs in 2006 (126%). The total number of direct, indirect and induced jobs has increased by 13,668 (125%) from 10,901 in 1997 to 24,569 in 2006. (HLT, January 2008, Key Findings, Exhibit 30). Many of these jobs are part-time or casual.

Disappointing Results

1) For Breeders, the anticipated 'trickle down' effect of the Slots at Racetracks Program has not been significant:

It was anticipated that higher purses would lead to increased purchases and prices of yearlings. In fact, the impact on breeders has been minimal, less than a $13M increase in yearling sales between 1997 and 2006. Compared to the 230% increase in revenues for racetracks and the 126% increase for horsepeople, the 71% increase for breeders is disappointing particularly given the labour and capital-intensive nature of this segment of the industry. (HLT, January 2008, Vol. I, Sec. 4, p. 96)

The number of standardbred yearlings sold in 1997 (396) versus 2006 (564) increased by 42%. The number of thoroughbred yearlings sold in 1997 (214) versus 2006 (313) increased by 46%. In terms of price, the average standardbred yearling sold for approximately 10% less than in 2006 ($15,127) versus 1997 ($16,905). The average price for thoroughbred yearlings increased only marginally by approximately 6% in 2006 ($26,710) versus 1997 ($25,160). (HLT, January 2008, Vol. I, Sec. 2). (Note - the number of standardbred yearlings sold and corresponding average sales prices do not include standardbred yearlings sold in mixed sales. This total above is for the "yearling only" sales that Standardbred Canada and Forest City hold annually.)

There has been a 29% increase in the number of standardbred mares bred in Ontario in 1994 (3,349) versus 2006 (4,327) and a 24% increase in the number

of thoroughbred mares bred in Ontario in 1997 (1,178) versus 2006 (1,458). The number of standardbred stallions in Ontario in 1997 (179) versus 2006(177) has declined marginally. In the case of thoroughbreds, the decline of stallions in Ontario is more dramatic in 1997(125) versus 2006 (85). (HLT, January 2008, Vol. I, Sec. 2(iii))

2) Only a few racetracks are holding or increasing the Ontario wagerers' interest in the Ontario racing product:

It was anticipated that increased purses would help to increase the attraction of the racing product to Ontario-based customers. However, between 1997 and 2006, total Ontario wagering on Ontario product decreased by $176M or about 26%. The largest racetracks in the province accounted for the largest decrease, both as a percentage of the total industry decline and relative to wagering by their own customers. The medium sized and smaller tracks experienced less decline with five racetracks (Georgian Downs, Kawartha Downs, Clinton, Quinte and Ajax Downs marginally increasing the Ontario wager on Ontario racing product. (HLT, January 2008, Key Findings, p. 21)

3) Only half of the racetracks are holding or increasing the Ontario wagerers' interest in their own product:

It was anticipated that the infusion of slot revenues would allow for investments (e.g. marketing, racetrack infrastructure, purses, etc.) that would increase attendance and wagering. Of the 18 racetracks in Ontario, nine have experienced decreased wagering by Ontario customers on their own product between 1997 and 2006. Nine racetracks, Georgian Downs, Rideau-Carleton Raceway, Kawartha Downs, Sudbury Downs, Hanover, Clinton and Ajax Downs) experienced slight increases in live wagering (HLT, January 2008, Key Findings, p. 22)

4) Ontarians now wager 57% of their wagering dollars on foreign product:

It was anticipated that increased purses and increased races would lead to increased wagering on Ontario product by Ontario customers. Ontario wagering did not increase and customers in Ontario shifted some of their wagering to foreign product. In 1997, wagering on foreign product amounted to $383M. By 2006, this wager had increased by 66% to $637M. (HLT, January 2008, Key Findings, Exhibit 23)

The increase in Ontario wagering on foreign product has been concentrated on USA thoroughbred product at such racetracks as Aqueduct, Belmont and Churchill Downs. In total, Ontario wagers almost three times more on foreign thoroughbred product than on foreign standardbred product. Ontario customers are decreasing their wagering on Ontario standardbred product. (HLT, January 2008, Vol. I, Sec. 3, p. 63)

5) There are fewer races at WEG and Windsor:

An increase in the number of races was always anticipated as a result of the introduction of slots at racetracks. While there has been an overall increase in races, the number of races at both WEG's racetracks and at Windsor Raceway has declined below pre-slot levels. In 1997, WEG hosted 4,511 races versus 4,346 in 2006. Windsor Raceway hosted 1,836 races in 1997 versus 1,404 in 2006. (HLT, January 2008, Key Findings, Exhibit 25)

Pre-existing Weaknesses that are Re-emerging

1) The industry continues to lack cohesion among its constituent parts:

Virtually every stakeholder group referred to the negative impact of divisions between various industry members has had on the overall success of the industry in Ontario. While the industry appeared to coalesce during the early negotiations leading up to the implementation of the Slots at Racetracks Program that improved relationship has since returned to its less cohesive pre-slots status. Increasing frustration with the ORC with respect to its involvement with the economic side of the business is another sign of this fractured relationship.

2) The industry's traditional supply and demand model (purse to wager) continues to weaken:

In 1997, one dollar of purse money generated $4.89 in wagering. By 2006, each dollar in purses generated $1.76 in wagering. Based on an average take of 18.1%, the net revenue to racetracks per dollar of purse has declined from $0.90 to $0.35. Clearly, increased purses alone do not increase wagering. We have been told that what increases wagering is: i) wagering pool size, ii) a competitive race, and iii) field size. Even prior to the Slots at Racetracks Program, racetracks had to generate additional sources of revenue (e.g. wagering on foreign product, and foreign wagering on Ontario product) to fund purses.

As of 2002, the percentage of purse money coming from slot revenue is more than the percentage coming from wagering. With the exception of WEG, the majority of funding for purses at all tracks comes from slot win (percentages range from a low of 46% at WEG to a high of 93% at Woodstock). Racetracks have been able to maintain their share of take-out since 2001 primarily due to the large amount of slot revenue allocated to purses and a slight decrease in purse funding from take-out.

3) The market for horse racing has not grown but all racetrack market areas may not yet be fully penetrated:

Despite continued acknowledgement by industry stakeholders that market growth is a priority, there remains significant potential in existing market areas. Woodbine, Mohawk and Ajax Downs (all located in the Greater Toronto Area) generated an annual wager of $189 per adult in their combined market area. Fort Erie Race Track generates $155 per adult in its market area. These tracks are at the high end of the penetration ratio. Sudbury Downs at $23 and Rideau Carleton at $27 are at the low end of the ratio. (HLT, January 2008, Key Findings, Exhibit 10)

4) WEG continues to maintain its dominant position in the Ontario horse racing industry:

In 1997, WEG accounted for 70% of total wagering in Ontario. By 2006, this increased to 74%. The next largest racetrack in 2006 was Fort Erie, which accounted for less than 5% of total Ontario wagering. In terms of take, WEG increased its share of the Ontario total from 68% to 73% over the same period. (HLT, January 2008, Key Findings, p. 21)

5) Integrity remains an issue but the focus has changed somewhat:

Before the Program was introduced, efforts in support of industry integrity focused to some extent on ‘race fixing’ for wagering purposes. With increased purses and the availability of new drug technologies, the focus has shifted somewhat to the use of illegal substance use and abuse. The ORC has increased its resources to ensure integrity in the industry.

New Trends to Watch

1) Percentage foreign wager by Ontario customers:

While a significant increase in foreign wagering on Ontario product is encouraging, the increase of Ontario customers' wager on foreign product is of concern. Foreign Race Inter-Track Betting (FRITB) was introduced in 2005 and is currently impacting the wagering profile. A triple concern, Ontario wagering on foreign product may reduce wagering on Ontario product and its contribution to Ontario purses, and FRITB 'take-out' is less than Ontario 'take-out'. (HLT, January 2008, Vol. I, Sec. 3, p. 69)

2) The individual stakeholder revenues as a percentage of total industry revenue are shifting:

In 1997, racetracks accounted for 42% of total stakeholder revenue. By 2006, with slots this increased to 52%. In 1997, horsepeople accounted for 50% of total stakeholder revenue. By 2006, with slots this decreased to 43%. In 1997, breeders accounted for 7% of total stakeholder revenue. By 2006 with slots, this decreased to 5%. (HLT, January 2008, Vol. I, Sec. 4, p.97)

In all, there have been a number of very positive impacts on the Ontario horse racing and breeding industry with the introduction of the Slots at Racetracks Program. It has not been a panacea however, as some disappointing results, the re-emergence of pre-existing weaknesses in the industry and new trends of potential concern are evident. Subsequent chapters in this Report will provide guidance on how the industry can maximize the Program and manage the way forward.

CHAPTER 4

THE COMMITMENT OF GOVERNMENT TO THE HORSE RACING AND BREEDING INDUSTRY

The preceding two Chapters of this Report highlight the value of this industry to the province as a whole. Its value has long been recognized and confirmed by government even prior to this past decade. As early as the 1970s, government supported the Horse Improvement Program (HIP) of this province by refunding to the industry 2% of the tax imposed on pari-mutuel wagering. In 1996, the government reduced the remaining tax considerably and began to plan for the introduction of slot machines at racetracks. This last economic initiative saved a declining industry from the possibility of near-extinction or, at least, a major contraction with the resulting loss of jobs, particularly in the agricultural sector of the province.

In addition, in 1994 the province assisted the industry by spearheading the creation of the Ontario Horse Racing Industry Association (OHRIA) that was designed to represent the industry as a whole and further its economic and social interests. However, the unique construct of OHRIA and the inability of the collectivity of its members to continue to advance the overall best interests of the industry caused it to fall into disarray.

Finally, the province along with the federal regulator, the Canadian Pari-Mutuel Agency (CPMA), has always provided the regulatory mechanisms to oversee horse racing in order to ensure that the industry conducted its business with the utmost integrity and in the public interest.

Now, the time has come for the government of Ontario to reaffirm its commitment to the industry but not just in economic terms. With the creation of this Panel, the province is seeking assistance for the industry once again by mapping a vision and direction for a Strategic Plan designed to ensure the industry’s long-term viability and sustainability. In our view what is required is a new framework for governance, regulation, economic success, innovation and social responsibility.

This Report is designed to lead to the creation of a common vision for the future direction of the horse racing and breeding industry. It is vital that the entire industry and its regulators buy into this new direction and that they put their past, divisive culture behind them once and for all.

CHAPTER 5

A FRAMEWORK FOR GOVERNANCE OF THE GAMING INDUSTRY AT THE PROVINCIAL LEVEL

In the following section of this Report, we will address a framework for the future governance of the horse racing and breeding industry at the industry level. However, before dealing with this important issue, it is necessary to address the question of governance of the gaming industry at the provincial level. Otherwise, there would be no context within which the governance of the horse racing industry itself would be placed.

There is currently no comprehensive gaming strategy in place in Ontario. However, there is universal support for its establishment. Currently, the policy decision-making process is 'siloed' and involves a number of disparate ministries. These ministries deal with various issues involving casino-type gaming, lotteries, horse racing, charitable gaming (including bingo), First Nations gaming and the Problem Gambling Strategy.

As for horse racing, there is no focal point within government for the consideration of policy involving this industry's relationship with other gaming sectors. Furthermore, and most importantly, no ministry is responsible for overseeing the long-term economic and social viability and sustainability of the horse racing industry and the agricultural sector of which it is an important part.

When the Slots at Racetracks Program was introduced, an obligation was placed on Ontario Lottery and Gaming Corporation (OLG) to consult with the horse racing industry (OHRIA specifically) and the ORC and develop benchmarks for monitoring the progress and success of the Program on an annual basis. No benchmarks were ever developed and no annual consultations were held. The Program continued to operate within a vacuum.

Furthermore, from time to time operational decisions were made by the OLG in its legitimate interest but without regard for their potential impact on the horse racing industry. In the future, for example, if the OLG should plan to open or expand a facility that includes card table games, dice games and/or roulette tables at or near an existing Slots at Racetrack facility, as a prerequisite, a study should first be done to determine what, if any, impact this would have on the horse racing and breeding industry. If cannibalization of the wagering on horse races is likely to occur, a level of compensation for the racing and breeding industry should be negotiated. If any sector of the gaming industry is

considering expanding or extending its gaming products, it should consult with the 'Gaming Secretariat' so that consideration can be given to whether the proposal impacts negatively on any other sector of the gaming industry. Any funds flowing into the industry from such new initiatives should be distributed in keeping with the recommendations contained in this report.

There are many opportunities for the horse racing industry and the OLG to create an integrated approach to managing the slot operations at the racetracks and the horse racing sector. There are opportunities to create joint marketing ventures, joint operational initiatives in shared entertainment facilities and in the offering of food and beverage services. There are opportunities to integrate customer reward programs and to introduce horse racing-themed gaming machines to the slot operation. What is needed, and what was absent in the past, is the willingness to work together and the oversight of a body such as a Gaming Secretariat.

We leave it to government to determine how best to establish a Gaming Secretariat and where within its various ministries it should be placed. What is most important, however, is that the Secretariat, which will be a policy making, coordinating and advisory body, must be and appear to be free of any biases in favour of one form of gaming activity over another. It must have a clear mandate to consider and protect the legitimate policy objectives of each gaming sector (including horse racing) and develop a comprehensive gaming strategy that serves the best interests of the sector as a whole and is in the public interest.

RECOMMENDATION 1

The government should establish a Gaming Secretariat with responsibility to:

- **i)** **Develop and implement a comprehensive gaming strategy for the province that includes the horse racing and breeding industry**

- **ii)** **Coordinate the activities of each sector of gaming including horse racing, promote relationships and co-operation between the various sectors and ensure that decisions that are made take into account their potential impact on all sectors**

- **iii)** **Advise government on the expansion or contraction of gaming**

iv) **Advise government on the structure and funding of all provincially-funded programs related to gaming including the Slots at Racetracks Program and oversee the expenditure of the funds**

v) **Advise government on federal/provincial issues related to gaming including internet gaming**

vi) **Oversee the province's Problem Gambling Strategy**

CHAPTER 6

GOVERNANCE AT THE INDUSTRY LEVEL AND REGULATION

As previously stated, when OHRIA was created in 1994, it was intended that this body would represent the industry as a whole and speak to government with one voice. OHRIA was very successful in fulfilling this expectation when it lobbied government for a major reduction in the provincial tax on pari-mutuel wagering and the introduction of slot machines at the racetracks.

However, OHRIA failed to fulfill government's expectations of addressing and resolving the ongoing economic issues of the industry on a continual basis and meeting the many challenges that continued to face the industry. There are many reasons for this failure, but the most significant one centred on the decision-making process that was provided in OHRIA's by-laws.

The voting members of the Board of OHRIA are comprised of: a representative from Woodbine Entertainment Group (WEG), a representative of a not-for-profit racetrack excluding WEG, a representative of a for-profit racetrack, a representative of the largest standardbred horsemen's association, the Ontario Harness Horse Association (OHHA), a representative of the thoroughbred horsemen's association, the Horsemen's Benevolent and Protective Association (HBPA), a representative of the Standardbred Breeders of Ontario Association (SBOA), and a representative of the Canadian Thoroughbred Horse Society (Ontario Division) (CTHS). The non-voting Chair of OHRIA was initially chosen by the government and subsequently appointed by the Board. All decisions of the Board required unanimity.

OHRIA also has non-voting general members comprised of corporations, associations and organizations that are stakeholders in the horse racing and breeding industry and who are admitted to membership by the Board.

Many of the economic issues that faced OHRIA pitted one stakeholder group against another. In the absence of unanimity, the Board was unable to resolve those issues. One member of the Board protecting its own self-interest could emasculate the ability of OHRIA to make decisions in the overall best interest of the industry. The failure of OHRIA was inevitable.

In our view, it would be best if the horse racing industry itself had the responsibility for determining its own economic destiny rather than having it

done by an external body. However, in order to be effective, an industry body must be able to make final decisions that bind the industry.

We propose that four new Board members be added to OHRIA's existing Board roster. First, we believe that there should be a representative of the Quarter Horse Industry added to the Board. While relatively small at the present time, the Quarter Horse industry has great potential for growth. It involves the racing and breeding of horses. It is regulated by the ORC and its racetrack, Ajax Downs, has slot machines. This industry should take its rightful place on the Board of OHRIA.

The Ontario Racing Commission completed and approved a Quarter Horse Racing Industry Development Plan on October 19, 2006. This Plan includes a unique development and financial model for this segment of the industry along with a new governance model that addresses the unique issues related to quarter horse racing. It involves a level of oversight by the ORC. In the future, decisions will have to be made with respect to revenue sharing if additional gaming machines are located at Ajax Downs.

Second, we believe that the Board should have three government-appointed representatives. Particularly because of the infusion of slot revenue in the horse racing and breeding industry, the government of Ontario has a major stake in the long-term success and viability of this industry. With the number of government appointees proposed, the government will not take over the management of the industry but will have a direct voice in the decisions that will be forthcoming. These Board members will also assist the industry in dealing with broad policy issues and objectives. To us, this reinforces the partnership that has developed between this industry and the government.

RECOMMENDATION 2

We recommend that OHRIA be reconstituted as a Corporation to be known as HORSE RACING ONTARIO (HRO) based on the following framework:

i) The membership on the Board of HRO should be comprised of the following: one senior official from WEG; one senior official from a not-for-profit racetrack other than WEG; one senior official from a for-profit racetrack; the presidents of each of the following organizations – the Ontario Quarter Horse Association, the Canadian Thoroughbred Horse Society, the

Standardbred Breeders of Ontario Association, the Ontario Harness Horse Association and the Horsemen's Benevolent and Protective Association; and three independent members appointed by the government of Ontario. The three government appointees should be appointed for three-year terms with the option for renewal for one further three-year term.

ii) **The Chair of HRO should be elected by the Board of HRO for a term determined by HRO's by-laws. The Executive Director of HRO should be appointed by the Board of HRO.**

iii) **A majority vote of the Board of HRO shall govern and determine all matters brought before it.**

iv) **The Board of HRO will decide all economic industry issues and disputes among industry stakeholders, including the fixing of race dates, but excluding those disputes that relate to the contracts between individual racetracks and their respective horsemen's associations.**

v) **The Board of HRO should develop the details of an industry strategic plan and inform the Gaming Secretariat with respect to any matter involving the distribution of funds derived from the Slots at Racetracks Program as described below.**

vi) **HRO will require and enforce the obligation of all industry stakeholders to provide comprehensive economic data pertaining to slot revenue as directed by HRO's Executive Director.**

vii) **HRO will structure and administer all province-wide programs affecting the industry such as the HIP Program, the Quarter Horse Industry Development Plan, the oversight of the expenditure of funds generated by the reduction of the tax on pari-mutuel wagering, the branding of horse racing and a comprehensive horse racing marketing strategy. In addition, HRO could also undertake industry-wide benefit plans for individual participants and education, training, accreditation and horse-ownership programs.**

viii) **HRO will terminate the funding from the Slots at Racetracks Program to any industry stakeholder that fails to become a member of the Board of HRO, fails to participate in the Board's deliberations or fails to abide by the final decisions rendered by the Board of HRO, including decisions with respect to meeting industry benchmarks. The flow of slot funds would resume when the stakeholder is no longer in default. Slot funds that are withheld from stakeholders will be retained by HRO and applied to fund its programs and undertakings.**

ix) **HRO will terminate the funding from the Slots at Racetracks Program to any industry stakeholder that is involved in a dispute related to a contract between an individual racetrack and a horsemen's association that results in a cessation of live racing. The flow of slot funds would resume when the dispute is resolved. Slot funds that are withheld from stakeholders will be retained by HRO and applied to fund its programs and undertakings.**

x) **HRO will consult with the ORC on issues related to the integrity of horse racing, on the promulgation and/or amendment of the Rules of Racing by the ORC and on administrative issues such as the provision by the ORC of the necessary racing officials on race dates.**

xi) **HRO should advise the Gaming Secretariat on all policy issues affecting the horse racing industry.**

xii) **The operational funding for HRO will come from the funds made available to the industry by the Slots at Racetracks Program.**

HRO will require a comprehensive by-law dealing with all aspects of corporate governance and management. It should be subject to an annual independent, financial and governance audit.

The intent is that HRO will manage all aspects of the economics of the industry except contract disputes. Accordingly, the economic issues that are currently being dealt with by the ORC, such as the granting of race dates, the construct and administration of the HIP Program and the further construct and administration of the Quarter Horse Development Plan, will become the

responsibility of HRO. In the past, the ORC was required to deal with economic issues by default and this, more than anything else, created a strained relationship between the industry and its principal regulator.

HRO will also be in a position to address other economic issues such as internet gambling on horse races and the provision in the federal Income Tax Act that limits deductions for expenses related to racing to $8,750 per year by part time farmers who are racehorse owners. HRO can work with and through the Gaming Secretariat to deal with the federal government through the Ministry of Intergovernmental Affairs in order to effectively deal with such issues.

As discussed below, our recommendations with respect to the development of a New Slots Program and HRO's responsibilities with respect to it will not take effect immediately. This is due to the fact that the existing Site Holder Agreements expire at various times between December 2008 and November 2021. However, that does not necessarily mean that the implementation of some of the above Recommendation cannot begin immediately. The new model for governance at the industry level is needed now and HRO can begin to plan for the implementation of the New Slot Program whenever it begins to take effect as discussed below.

The funding for the operations of HRO should eventually come from slot revenues. However, as these funds will not become available immediately, the industry must come forward with the necessary funding so that HRO can begin to discharge some of its obligations under its new structure and mandate. The willingness of the industry to do so on a voluntary basis will evidence its willingness to embrace a new direction that is designed to support the industry's long-term sustainability and viability.

Later in this report, we will set out the province-wide initiatives and programs that should be structured and administered by HRO. In order to perform these functions effectively, HRO will require a governance structure that is representative of the stakeholders within and with a direct interest in the industry that can make definitive decisions on a timely basis. The success of these initiatives and programs will depend in large measure on the effectiveness of HRO.

RECOMMENDATION 3

We recommend that the horse racing and breeding industry fund HRO immediately so that it can re-structure itself as set out above and commence

dealing with its new decision-making mandate and the economic issues that come before it prior to the implementation of the New Slots Program. HRO should also begin to structure the programs that will be created under the New Slots Program

THE ROLE OF THE PROVINCIAL REGULATOR

Stakeholders have expressed universal dissatisfaction with the current role being played by the ORC. In their view, the ORC should not be involved in the economics of the industry, but rather should focus on its principal mandate, to ensure that horse racing is conducted with the highest level of integrity and in the public interest.

As previously noted, the ORC became involved in economic issues because there was no other effective body to perform this function. Accordingly, the ORC cannot be faulted for filling the gap that the disarray of OHRIA created.

If the previous Recommendation is implemented, it will no longer be necessary or appropriate for the ORC to remain involved with economic issues. It will be able to concentrate exclusively on integrity and how horse racing is conducted. The budget of the ORC should be adjusted as a result of the transfer to HRO of the responsibility of dealing with economic issues.

Needless to say, integrity is the backbone of wagering on horse races and we encourage the ORC to take strict measures to protect it. We endorse the recent rule changes that will suspend a horse from racing when a positive drug test is registered. This will impact the owner of the horse and through him/her, the trainer and veterinarian that the owner has chosen to employ. We encourage the ORC to explore procedures for eliminating stays of penalties pending appeals. This should encourage all parties to proceed expeditiously in disposing of appeals.

As most standardbred horses are now housed off-track and are shipped to the racetrack on race day, the ORC will be required to consider the licensing of training centres and farms so that training activities there can be monitored.

The sector of the industry affected by a proposed change in the Rules of Racing should be consulted by the ORC and given the opportunity to comment prior to the enactment of any rule or rule change. There should be a constant flow of information between the ORC and HRO on initiatives and decisions that involve the discharge of the mandate of the ORC. In addition, the ORC should be an

active participant in any industry advisory committee that may be established by the Gaming Secretariat.

Finally, the ORC should license and regulate all horsepeople associations. These associations play a major role within the industry and require a level of recognition and accountability. Furthermore, they receive a portion of slot revenue to support their operations that comes from purse funds, and as HRO will have responsibilities for the oversight of the expenditure of slot revenue, these funds should be included in its purview.

RECOMMENDATION 4

We recommend:

- **i) That the Ontario Racing Commission return to its mandate to regulate all aspects of horse racing that are designed to protect the public interest by insuring the highest level of integrity, and that it cease to be involved in economic issues that affect the industry as soon as HRO is prepared to take over that function.**

- **ii) That the budget of the Ontario Racing Commission be adjusted in consultation with the Ministry of Government and Consumer Services and HRO to reflect the above change.**

- **iii) That the ORC consult with HRO on issues related to the integrity of horse racing, on the promulgation and/or amendment of the Rules of Racing by the ORC and on administrative issues such as the provision by the ORC of the necessary racing officials on race dates.**

- **iv) That the ORC licence and regulate all horsepeople associations.**

- **v) That the ORC participate in any horse racing and breeding industry advisory committee that the Gaming Secretariat may establish.**

CHAPTER 7

A FRAMEWORK FOR ECONOMIC SUCCESS

The principle that guides our thinking with respect to this topic is simple to state**. A new framework for economic success for the horse racing and breeding industry must focus on finding ways of encouraging the wagering public to bet on horse races. In order to accomplish this objective, it will often be necessary for industry stakeholders to make decisions that will put the overall welfare of the industry first and their own self-interest second.** This is especially important when considering how public funds that are flowing to the industry should be allocated.

Needless to say, this topic is the most difficult to address and undoubtedly will be the most controversial. This is inevitable as some stakeholders may turn out to be 'winners' while others will consider themselves 'losers'. The culture of entitlement that has permeated this industry in the past must give way to a culture of responsibility for one's own success or failure. We believe that this change will have the best chance of ensuring the long-term economic viability and sustainability of this industry.

There are a number of principles and truths that underlie a framework for economic success. First, it must never be forgotten that the core product that the industry has to offer to the public is the horse race that attracts wagering. If the wagering public is unwilling to wager on horse races, the industry is not sustainable. Of course, government can subsidize the industry if it considers that there are policy reasons to do so. In the case of the horse racing and breeding industry, the objective of supporting the agricultural sector of the economy is a sound reason that supports subsidization. However, subsidization may take alternative forms and is rarely a sound policy for the long term. Accordingly, the industry must concentrate on garnering public support for its core product.

Second, while it was never fully and clearly articulated, we believe that the Slots at Racetracks Program was intended to inject revenue into the industry in order to permit its stakeholders to make investments that would ultimately lead to increased wagering on horse races and an increase in the breeding and sale of Ontario-bred racehorses. If these objectives were met, the industry would have a better chance of 'standing on its own feet'. (Of course, the Program would also, by its nature, support the agricultural sector of the economy and generate revenue for the province.)

Third, the horse racing and breeding industry in Ontario derives its principal revenue from three sources: wagering on horse races, revenue from the Slots at Racetracks Program and the sale of Ontario-bred racehorses.

The industry itself has always had the ability to make decisions designed to lead to enhanced wagering on horse races and to increased activity in the breeding sector. However, it is government that has the ability to make decisions with respect to the Slots at Racetracks Program, and we will begin our discussion of a framework for economic success by discussing the Program.

THE SLOTS AT RACETRACKS PROGRAM

In Chapter 1 of this Report, we provided a brief outline of how the Program came into being and how it was structured. By providing that most of the Site Holder Agreements would cover a period of five years with a further five year option, it was contemplated that each racetrack would derive sufficient slot revenue to cover the capital costs of providing the OLG with space for a slot facility and revenue to permit improvements to the racing side of the operation. However, while the Agreements anticipated that improvements would be made to racetrack infrastructures, they did not specifically require improvements and benchmarks were not put in place to ensure that this would happen. Notwithstanding, most track operators did make improvements to their racing facilities, some more so than others. Also, two new standardbred racetracks were built (Georgian Downs and Grand River Raceway) as a direct result of the introduction of the slots Program.

The site holder agreements did not address the possibility that some racetracks could be sold within the ten-year period and that new owners might undertake financial commitments resulting from the sale that could extend well beyond the ten-year term. There were no guarantees that the Program would continue in its original form or at all beyond the ten-year period, thereby ensuring that new owners would be able to retire any debt that might have been incurred as a result of the purchase.

In addition, it was anticipated that the slot revenues that went to purses would result in an increase in the number of participants in the industry, an increase in the number of quality Ontario-bred racehorses and increased wagering on the resultant ‘better’ racing product. Again, there were no specific requirements put in place with respect to the expenditure of purse monies earned or investments in

the breeding sector. No benchmarks were established to monitor the success of this part of the Program, either. Notwithstanding, it is fair to attribute some of the successes that the industry has experienced over the past decade as outlined in Chapter 3 of this Report to the existence of the Program.

Due to the absence of specific requirements with respect to the expenditure of slot revenues received by industry stakeholders and the absence of benchmarking and continual monitoring of the effect of the Program on horse racing and breeding, it is impossible to determine whether the Program has been an overall success. In some respects, it has; in others, it has not. As no objective criteria for determining success were ever put in place, measuring success is in the eyes of the beholder. It would be unfair to place the onus of proving the success of the Program over the past decade on the industry when the government did not establish criteria at the outset.

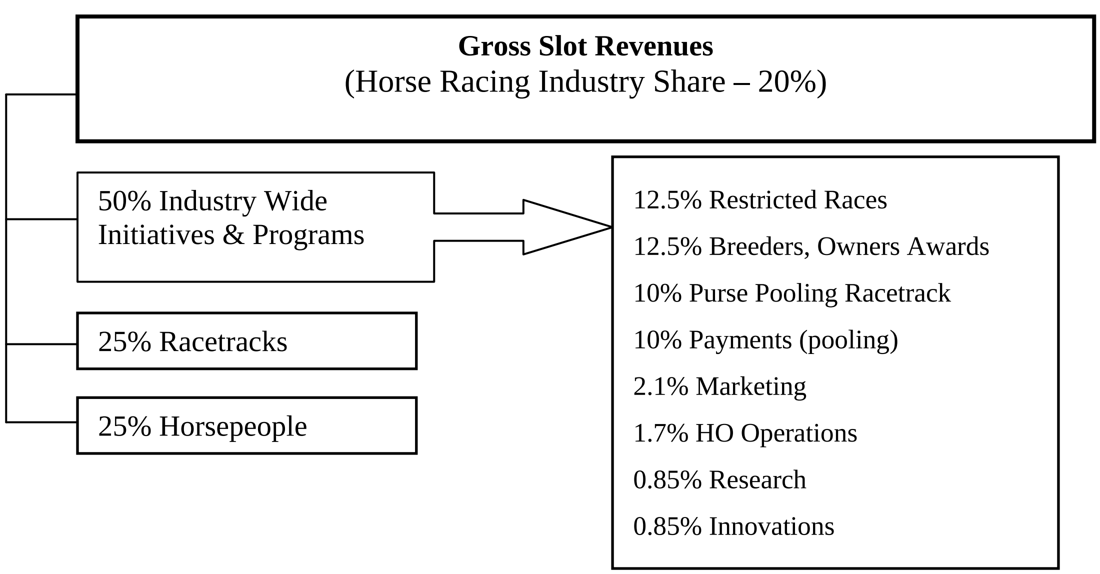
The Panel fully supports the continuation of the Slots at Racetracks Program at a minimum level of 20% of the revenue generated from slot machines at the racetracks. However, the Slots at Racetracks Program should now be adjusted with the following principles and objectives in mind. First, all available funds should be pooled and used for initiatives and activities that are designed to advance the overall interests of all industry stakeholders, with the balance being allocated on an even-handed basis between racetracks and horsepeople. Second, the funds that are required for industry-wide initiatives should be paid over to HRO and applied for those identified purposes. Third, a portion of the available funds should be divided equally between racetracks and horsepeople with benchmarks put in place to monitor the progress and success of the new slots program (the “New Program”) resulting from expenditures of those funds. Fourth, a further portion of the available funds paid over to HRO should be used for specific programs that are designed to target the overall objectives of the New Program. These programs should provide incentives for industry stakeholders to take steps that will further advance the overall objectives of the New Program. The performance of these new programs should also be monitored by applying the aforesaid benchmarks. Fifth the flow of slot funds must be transparent and all recipients must be fully accountable to the industry, government and taxpayers for all funds received.

We wish to stress at the outset that **there are no quick and easy solutions** to the situation that currently exists. Introducing substantial change to the slots program in the short term is encumbered by the existing Site Holder Agreements that remain in place for different periods of time. The government has an

obligation to abide by the terms of the existing Agreements and, accordingly, a number of transitional, alternative plans for change must be considered.

Before dealing with benchmarking and alternative transitional plans for change, we will articulate in general terms the nature of the overall changes to the program that we will discuss in further detail below. As previously stated, in our view, the program should be re-designed by pooling all of the funds payable to the industry under the New Program. These funds should then be paid out and committed as follows:

i) funding the operations of HRO;
ii) branding and generic marketing of Ontario horse racing;
iii) investment in research that will enhance and protect the racehorse;
iv) investment in the development of innovative technology and new betting products;
v) payment of one quarter of the slot revenues generated at each racetrack to each of the racetracks and to their respective horsepeople for purses;.
vi) programs to stimulate wagering on Ontario product, particularly on races involving Ontario-bred horses;
vii) programs to stimulate the breeding, owning and racing of Ontario-bred horses in Ontario;
viii) province-wide purse pooling of a portion of the standardbred slot revenues and standardbred purse stabilization; and
ix) payment to the standardbred racetracks of a proportionate amount of the purse money pooled.



Benchmarking

A clear failing of the Slots at Racetracks Program in its current form, is the lack of a benchmarking regime against which results can be measured. Any new or modified program must include clear benchmarks and measurable criteria for assessing progress and success. From a public policy perspective, a transparent way of monitoring the impact of investment is an essential, minimum requirement; from an industry point of view, knowing what actions lead to positive and sustainable growth and which do not is a competitive advantage and suggests changes that can lead to better outcomes.

We recognize that as is the case for most, if not all industries, competition is vital to the healthy development and success of the horse racing and breeding industry. Protecting the confidential information associated with economic strategies specific to individual parties must therefore be protected in any benchmarking plan. Having said this, we believe that there are benchmarks that can be defined for each of the industry partners and measured in appropriate ways while safeguarding confidentiality.

For racetracks, HRO should establish benchmarks that include a measure of the money spent on its racing infrastructure, including the provision of minimum standards for customer amenities. In addition, HRO should establish minimum standards for teletheatres.

Each racetrack knows best what is required to draw in customers and encourage them to wager on live product. We do not believe that it is wise to impose specific requirements on racetracks, other than as noted above with respect to the use of their funds, as much will depend on what has already been done to upgrade facilities and provide for customer amenities. In addition, there will be different considerations for each racetrack depending on their geographical location and customer demographics. Racetracks should be required to submit an annual business plan to HRO outlining their proposals for the use of these slot revenues and the results of the prior year's expenditures

As previously stated, we recognize that the two global outcomes of the New Program should be 'to promote live horse racing in the Province and subsequently benefit the agricultural sector in Ontario'. At the macro level, the logical benchmarks for these outcomes will involve following the **people**, the **horses** and the **money**. The more Ontario residents that participate in the industry, the greater the number of Ontario resident broodmares, stallions, foals and racehorses, and the higher the wagering on Ontario product, the more there

will be investment and spending in the Ontario economy. A strong Ontario horse racing industry helps build a strong Ontario agricultural economy.

In order to measure developments in these macro trends, it will be necessary for HRO to collect and analyze annual data in a standard fashion, for the purpose of monitoring the success of all elements of the New Program. This will achieve improved industry outcomes and ensure compliance by all industry stakeholders. In addition, baselines will have to be established in each area so that targets can be set.

RECOMMENDATION 5

We recommend that:

- **i) HRO undertake the annual collection and analysis of data and reporting of results against standard benchmarks.**
- **ii) The benchmarks will not require collection of confidential data.**
- **iii) The benchmarks will include:**
  - **a) For measuring people: the number and type of licences issued by the ORC in total and to Ontario residents; and the number of breeders registered with a breeders' association**
  - **b) For measuring horses: the number of foals registered by breed; the number of yearlings sold by breed, in total and to Ontario owners; the number of stallions and broodmares standing and resident in Ontario by breed; the total number of starters by breed, in total and resident in Ontario; the number of Ontario-bred starters by breed; the number of Ontario-bred winners, by breed, in total and resident in Ontario**
  - **c) For measuring money: total wager by racetrack; total wager on Ontario product from within Ontario and by racetrack; total wager on foreign product from within Ontario and by racetrack; total live wager and by racetrack; total wager on Ontario product from foreign jurisdictions and on each racetrack; the value of yearlings sold by breed in total and to Ontario owners; the slot portion of purses by breed and by racetrack; slot revenue of racetracks including purse savings from any incentive-based race purse; funds spent by each racetrack on its racing infrastructure, including the provision of established minimum customer amenities and teletheatres that meet established minimum standards.**

Transitional Alternatives

The termination dates of the existing Site Holder Agreements run from December 2008, (Windsor Raceway) to November 2021, (Georgian Downs). However, most of the outstanding Agreements will have expired by December 2011, with several notable and important exceptions: Grand River Raceway – December 2013; WEG (Mohawk Raceway) – August 2014; WEG (Woodbine Racetrack) – March 2015; Ajax Downs – December 2015; and Georgian Downs – November 2021 ("the Five Agreements").

In order to institute a New Program and secure revenue to fund its programs and initiatives, it is necessary to consider alternative ways of retiring the existing Agreements. We offer four options for consideration:

i) The OLG unilaterally terminates all of the Site Holder Agreements at the same time by providing 12 months notice pursuant to a standard provision contained in each Agreement;

ii) All stakeholders who are parties to the outstanding Site Holder Agreements agree to an earlier termination date and the subsequent commencement of the New Program;

iii) All Site Holder Agreements that are due to expire prior to December 2011 be extended on their existing terms until December 31, 2011. As of January 1, 2012, the New Program would take effect subject to the Five Agreements that will continue to remain in place until they reach their respective termination dates; or,

iv) All Site Holder Agreements be extended on their existing terms until July 2015, whereupon the New Program would take effect.

In our view, the New Program should commence at the earliest possible date. With that in mind, we note that Alternative i) would involve substantial termination costs. Alternative ii) would depend on the willingness of all industry stakeholders to agree to an early start.

Alternative iii) would result in a situation where the parties to the Five Agreements would continue to receive 20% of the slot revenues generated at their respective racetracks while all other parties would receive 10% under the New Program. This would result in an unfair competitive advantage to the parties receiving 20% and a considerable disruption within the industry. In order to compensate for this, the government would have to make up the 10%

difference until at least July 2015. These funds could be repaid to the government by their recipients out of future slot revenues over a period of time.

There may be other options for accomplishing the same objective by having the ORC impose a levy of 10% on the racetracks receiving 20% and paying those funds into the slot pool. When the Site Holder Agreement of one of the five racetracks expires, it could join those receiving 10% and the ORC levy would terminate.

Alternative iv) simply awaits the expiration of all of the Site Holder Agreements (with the exception of Georgian Downs and Ajax Downs) before the New Program would take effect. Special adjustments would be required for Georgian Downs. While this is the ‘cleanest’ alternative, in our view, it defers the implementation of the New Program far too long.

Because of the obligations that exist under the outstanding Site Holder Agreements and depending on which alternative is adopted as set out above, the ability to fully implement the New Program in a straight-forward manner has been compromised. This is yet another example of how isolated decision-making made in the absence of an overall strategy can negatively affect future and comprehensive planning. However, even though the full effect of the New Program may take time to be realized, any delay will afford industry stakeholders an opportunity to plan for upcoming changes.

Whenever the New Program comes into effect, a Slot Funding Pool will be established comprised of the 20% of the revenue generated by the slots at all of the racetracks. This amount will fund the New Program for each of the following three years and will then be reviewed. The funds will be paid to the industry on the basis of a Transfer Payment Agreement.

If Alternative i), ii) or iv) is adopted, full funding will be available to proceed with all of the programs and initiatives of the New Program as described below. If Alternative iii) is adopted, funds will be limited at the outset but will gradually increase as Agreements expire.

While Alternatives i) and ii) would result in the earliest possible introduction of the New Program, from a practical perspective, we recommend that Alternative iii) be adopted.

RECOMMENDATION 6

We recommend that Alternative iii) be adopted as the method for introducing the New Program. This Alternative provides that all Site Holder Agreements that are due to expire prior to December 2011 be extended on their existing terms until December 31, 2011. As of January 1, 2012, the New Program would take effect subject to the Five Agreements that will continue to remain in place until they reach their respective termination dates.

As set out above, the New Program, whenever it comes into effect, will pool all of the funds payable to the industry from slot machines at the racetracks. The amount payable should be reviewed after three years.

RECOMMENDATION 7

We recommend that:

- **i)** **Whenever the New Program comes into effect, all of the funds payable to the industry from slot machines at the racetracks are pooled.**
- **ii)** **The total amount payable into the Slot Funding Pool in each of the three years following the commencement of the New Program shall be 20% of the slot revenue generated at all of the racetracks. The amount payable should be reviewed after three years.**
- **iii)** **Out of the pooled fund, money will be paid to HRO to fund its costs of operation, the cost of branding and generic marketing of Ontario horse racing, the investment in research that will enhance and protect the racehorse, and, the investment in the development of innovative technology and new betting products.**
- **iv)** **Out of the pooled fund, payments equal to 25% of the slot revenues generated at each racetrack will then be paid to both the racetrack and to its respective horsepeople for purses.**
- **v)** **The balance of the pooled funds (the "New Program Funds") will then be paid to HRO and distributed in accordance with the programs and initiatives established under the New Program.**

Funding the Operations of HRO

The Chapter of this Report dealing with Governance at the Industry Level contemplates a greatly expanded role for HRO compared to the role that has been played in the past by OHRIA. HRO will be dealing with economic issues involving the industry and will resolve issues and disputes between stakeholders. HRO will also be administering the HIP Program, the Quarter Horse Development Plan and the programs and initiatives established under the New Program. It will oversee the development of branding for horse racing and generic marketing of the racing product. It will be required to make decisions regarding investments in research, and the development of innovative technology and new betting products. Funds will be required to design and administer programs, and paid consultants will likely be required to assist.

Funds will not be available to flow to HRO out of the New Program Funds until the New Program commences. If the commencement date is January 2012, HRO should be provided with funding well before that date in order to provide for its reorganization and the planning for and rollout of the New Program. Once in place, HRO can commence to deal with the economic issues that come before it.

In our view, the industry as a whole should come forward and advance the necessary funds for these purposes. Doing so would demonstrate the industry's willingness to buy into this new direction.

Branding and Generic Marketing of Ontario Horse Racing

A portion of New Program funds should be dedicated to the development of a brand for Ontario horse racing and for marketing the Ontario product on a generic basis. This is not meant to displace any marketing that may be done by individual tracks suited to their unique markets. Rather, the generic marketing is meant to augment local marketing.

While it will be left to HRO to develop a budget for this initiative and to oversee the rollout of both the branding and marketing plan, we offer the following observations.

The most effective (and most expensive) medium for marketing is television. It was the absence of the exposure of horse racing on television in the 1960s and 1970s that caused the industry to fall behind other sporting activities.

Generations of potential younger fans were thereby lost to the horse racing industry.

Among other things, a marketing strategy should target young adults. In Kentucky, for example, attending the horse races is a popular social activity for young adults seeking a form of entertainment that brings them into contact with their peers. The excitement of live horse racing and the opportunity to interact with others in attendance can be favourably compared to gambling on a slot machine. Marketing on the internet is an excellent way of reaching young adults.

The marketing strategy should also include the special events and prizes that are being offered at the racetracks.

Furthermore, the marketing and communications strategy developed by HRO should include a public relations function so that new stories regarding the horse racing industry can be circulated to the public at large.

Investment in Research

More will be said regarding this initiative in Chapter 9 of this Report when we discuss a Framework for Social Responsibility. However, it should be noted that funds will be required from the New Program funds for research and animal welfare purposes.

Innovative Technology and New Betting Products

As with the case of research, more will be said in Chapter 8 of this Report regarding an investment in developing and using innovative technology and developing new betting products. Funds will be allocated to conduct the necessary research and to lobby governments to make the necessary regulatory changes that may be required in order to accommodate the introduction of innovative technology and new betting products.

The 25% Funds and the HIP Program

After budgets have been established and funds set aside for the four preceding items, a further payment equal to 25% of the slot revenue generated at each

racetrack should be paid to each of the racetracks and to their respective horsepeople.

The payment of 25% to the racetracks is meant to compensate them for the space that they provide to the OLG for its slot facilities, to permit them to make ongoing capital improvements to their horse racing operations and to defray operating expenses. The payment of 25% to horsepeople is for purses. In our view, a portion of these purse funds should fund the HIP Program.

The Ontario Racing Commission spearheaded a review of the HIP Program that lead to recommendations contained in a Report dated September 27, 2007, for restructuring the Program. Subsequently, the industry associations were unable to agree on a new funding model to implement the restructuring of the Program. However the ORC did go forward with changes to the Program that, among other things, restructured the breeders awards for both the standardbred and thoroughbred sides of the industry, altered the definition of an ‘Ontario-bred’ for the purposes of determining eligibility for the Program, and developed a new purse structure for the Ontario Sires Stakes. We support the position taken in the Report that shifts purse monies from overnight races to stakes races. Indeed, the dramatic increase in the size of overnight purses due to slot revenue may be one reason why some prospective owners are not investing in Ontario-bred yearlings.

Generally, funding for HIP is made up of contributions from a levy on wagering, contributions from the horsepeoples’ share of slot revenue, contributions from the funds made available to the industry from the reduction of the tax on pari-mutuel wagering and from participation fees generated by the Program itself.

A major problem identified by the ORC Report was that HIP funding was unstable and was declining on the standardbred side due to decreased wagering on standardbred product. A number of alternative funding models were proposed, one of which placed a greater emphasis on funding for the standardbred program on slot revenues and less on wagering revenues. However, in the absence of industry agreement, not all of the recommendations could go forward.

In our view, a much greater proportion of funding (if not all) going to the HIP Program should come from the horsepeoples’ share of slot revenue rather than from wagering. This will provide the stable funding that is required over the next five years while the Program changes approved by the ORC are being phased in.

If funding is shifted from wagering to slot revenues, a decision will have to be made with respect to the approximately 2.6% levy on wagering that is currently taken from horsepeoples' purses and directed to HIP - this is a decision that HRO will be required to make. These funds were generated as a result of the reduction of the tax on pari-mutuel wagering. HRO will be required to determine whether, under the new funding structure of the HIP Program, these funds should be directed to non-HIP purses, to a reduction in take-out or for some other industry purpose. The choice should support the fundamental objective of increasing wagering on Ontario product.

New Programs and Initiatives

After budgets have been established and funds set aside for the five preceding items, the balance of the New Program Funds should be utilized for programs and initiatives that are targeted toward increasing the wagering on Ontario product and on stimulating the breeding industry and the agricultural sector that supports it.

Based on 2006 statistics, if implementation Alternatives i), ii) or iv) are adopted, approximately $325M will be available for the New Program. If implementation Alternative iii), is adopted, approximately $135M ($325-$190 being the amount payable under the Five Agreements) will be available at the outset (January 1, 2012) and this will increase as the Five Agreements expire. After payments are made under the Five Agreements and the 25% Funds are distributed to each racetrack and its respective horsepeople, approximately $ 69M ($325- $190 plus $67 being the amount of the 25% Funds) should be available as of January 1, 2012, for distribution under the New Program.

If implementation Alternative i), ii) or iv) is adopted, assuming that the budgets struck for the first four preceding items amount to approximately $20M, and after the 25% Funds are distributed (approximately $162.5M), this will leave a balance of approximately $142.5M for any new programs and initiatives. If implementation Alternative iii) is adopted, the budgets for the first four items will have to be set well below $20M, with the balance being available for new programs and initiatives. These amounts will increase as the outstanding Five Agreements expire and ultimately will reach approximately $162.5M when all racetracks and horsepeople will be receiving direct payments amounting to 50% of the funds.

HRO will be required to determine what portion of the New Program funds will be directed to each new program and initiative. It will also be required to determine the order in which each new program will be introduced and the budget that will be allocated for it. As a rough guide, the slots funds could be allocated as follows when approximately $162.5M is available:

HRO operations	3.4%
Research	1.7%
Innovation and betting products	1.7%
Branding and marketing	4.2%
Restricted Races	25%
Breeder, Owners Awards	24%
Purse pooling	20%
Payments to racetracks (pooling)	20%

We suggest the use of slot funds for three new programs that are targeted to either the breeding sector of the industry and/or increasing wagering on Ontario product. HRO should consider these programs and others that have the same objectives. It will be up to HRO to develop the details of any new program and initiative that is introduced. This work should be performed by HRO (perhaps with the aid of consultants) as soon as it is in a position to take on the challenges. This Report will set out several programs that could be considered.

i) Wagering on Ontario Product and Particularly on Races Involving Ontario-bred Horses

Wagering on races involving Ontario-bred horses will be stimulated by a program that provides incentives for writing restricted races for Ontario-breds. (The definition of an 'Ontario-bred' for these purposes will be the same as that contained in the new HIP Program.) The HIP Program already provides for restricted races for Ontario-breds, but these are limited to two- and three-year-old horses that are good enough to compete at the HIP level. We also note that in 2006, the total purse monies available under the HIP Program and to Ontario-bred restricted races (approximately $37M) represented only 12.6% of the total purses offered at Ontario racetracks (approximately $284M). In our view, this ratio is too low compared to the incentives that are being directed to local-breds in Pennsylvania, New York and Delaware. Additional incentives could be established that will apply to those horses that may not be competitive in the HIP Program and to older horses as well.

This could be accomplished by providing purses for such races (excluding HIP) directly out of the New Program Funds. To compensate the racetracks that write such races, the entire take-out on the wagering on these races would be kept by the racetrack up to the amount of the purse. Take-out above this amount would be divided between the racetrack and its horsemen in accordance with their contract for purse distribution.

Limits would have to be placed on the amount of purse money that is available from the New Program Funds to each racetrack for such restricted races. The amounts available to each racetrack could be based on the percentage of overall annual wagering that takes place on-track on that racetrack's live product in relation to the total overall on-track wager on Ontario live product.

We recognize that the details of the program on the thoroughbred side may be different from those on the standardbred side, and it will remain for HRO to work out those details. Thoroughbred racing may require fewer additional restricted races.

We anticipate that a program such as this (in addition to the HIP Program) will provide an incentive for owners to purchase and race Ontario-bred horses. Logically, this should stimulate the Ontario breeding industry. We recognize that this same logic did not appear to apply following the substantial and overall increase in purse money that resulted from the existing Slots at the Racetracks Program. This may have been due to the fact that the existing Program did not direct how purse monies should be allocated and a very substantial portion of funds went to non-restricted, overnight races. This was somewhat counter-productive to fostering investment in young, Ontario-breds. Prospective owners reasoned that it was wiser and safer to purchase older, established horses wherever they might have been bred and race them for the high purses that were being offered in open-company races, rather than invest in Ontario-bred yearlings and accept all of the costs and risks that are associated with buying a young, untried horse.

In our view, the New Program could contain a specific program that is directed toward the increased racing of (and wagering on) Ontario-breds that are not competitive in the HIP Program and to older horses.

ii) Breeding, Purchasing and Racing Ontario-bred Horses

We recognize that the previous program cannot by itself lead to increased wagering and the breeding of more quality Ontario horses. Accordingly, we recommend the consideration of additional programs that would be targeted to creating further incentives for Ontario breeders and owners. We note in particular that in spite of the slots Program, the number of standardbred breeders in Ontario has been continually declining. And now, with the new breeding programs in states such as New York and Pennsylvania, it becomes even more important that Ontario's breeding industry is capable of providing the number of horses that are needed to fill Ontario race programs.

Breeders' awards under the HIP Program are paid to the breeders of horses that earn purse money. In our view, a further incentive program should be considered that would provide bonuses to the breeders of Ontario-bred horses that earn purse money in open company races. The bonuses would be paid from the New Program Funds. To compensate the racetracks for what amounts to a payment to horsepeople, the racetracks would retain an amount up to the amount the bonuses paid from the take-out of wagering on the race. Any balance of take-out available would be divided between the racetracks and their horsepeople in accordance with their contract for purse distribution.

As with the case of restrictive races, the amounts available to each racetrack could be based on the percentage of overall annual wagering that takes place on-track on that racetrack's live product in relation to the total overall on-track wager on Ontario live product.

In addition, we recommend the consideration of a program that provides that bonuses be paid to the owners of Ontario-bred horses that earn purse money in open-company races. The bonuses would be paid from the New Program Funds. As with the case of breeders' awards, to compensate the racetracks for what amounts to a payment of additional purse monies to owners, the racetracks would retain an amount up to the bonuses paid from the take-out of wagering on the race. Any balance of take-out available would be divided between the racetracks and their horsemen in accordance with their contract for purse distribution.

Limitations may be appropriate with respect to both breeders' and owners' bonuses given in relation to claiming horses. It may be wise to grant bonuses only up to the time that a horse is claimed.

iii) Province-wide Pooling of Purse Monies and Purse Standardization for Standardbreds

While the 10% of slot revenue that has gone to purses has created a substantial benefit for horsemen, it has also created a significant disconnect at some standardbred racetracks between the purses that are offered and the amount of wagering that takes place. At these racetracks, conducting horse races is, in reality, simply a method of distributing purse money. The objective of purse pooling is to re-distribute funds to encourage more developed and mature horse racing markets.

Race dates should not be granted for the prime purpose of purse distribution but only if the anticipated level of wagering justifies the expense of offering the race in economic terms. Race dates should be ‘optimized’ not ‘maximized’. By aligning the number of race dates to wagering, the focus will and should shift to satisfying and increasing customer demand, ultimately with the view to increasing the number of sustainable race dates.

This imbalance is addressed, to a limited extent, by some of the programs that we have suggested above. However in our view more may be required. We suggest that after a proportionate share of these funds are paid for thoroughbred purses and to thoroughbred racetracks, a portion of the New Program Funds should be pooled and distributed to standardbred racetracks for purses proportionate to each standardbred racetrack’s live wager on its own product. Alternatively, the funds could be allocated based on the same relative weight of the purses that were offered in 1998 at each standardbred racetrack, the year that the Slots at Racetracks Program was introduced. As a further alternative, the funds could be allocated on the basis of the average of the above-two approaches. It may also be wise to introduce this change on a gradual and transitional basis. It will remain for HRO to make these determinations.

It has always been open for racetracks and horsemen to agree to purse-pooling on a voluntary basis. For example, Windsor Raceway attempted to persuade OHHA to agree to purse pooling between Windsor, Dresden and Woodstock. At the latter two racetracks, the disconnect discussed above was dramatic. No agreement was reached and purse-pooling did not proceed. Under the new governance model for HRO outlined above, it will be possible for a racetrack or horsepeople to bring such an issue to HRO for resolution.

We also believe that there is merit in standardizing purses to some extent for different classes of races between different groups of racetracks. On the

thoroughbred side, Woodbine would be classified as Group 1 and Fort Erie as Group 2. On the standardbred side, Woodbine and Mohawk would be classified as Group 1, Flamboro and Windsor would be classified as Group 2, Georgian, Western, Rideau-Carleton, Grand River, Kawartha, Hiawatha and Sudbury would be classified as Group 3, and Hanover, Dresden, Clinton, Woodstock and Quinte would be classified as Group 4. Standardization of purses would assist in stabilizing the movement of horses from racetrack to racetrack, thereby assisting Race Secretaries in determining the horse population that they may count on in writing conditions and filling races. The basis for a purse standardization scheme is attached as Appendix C to this Report.

iv) Payment to the Standardbred Racetracks of an Amount Equivalent to the Amount of Purse Money Pooled

In order to be even handed between the horsepeople and the racetracks, an amount equivalent to the amount of purse money pooled and paid over to each racetrack for purses should be paid to each racetrack. The benchmarks that apply with respect to the expenditure of the 25% Funds will apply to these funds as well.

The first two province-wide programs listed above are incentive based. The lack of incentives in the existing Slots at Racetracks Program was one of its major shortcomings. The funds generated under the existing Program were simply paid over to the industry without guidelines or requirements for expenditures and without benchmarks or monitoring for progress and success. Unfortunately, this fed the culture of ‘entitlement without obligation’ that should now be replaced by a culture of responsibility.

CHAPTER 8

A FRAMEWORK FOR INNOVATION

In July 1995, OHRIA, with the support of Deloitte and Touche Management Consultants, published an excellent strategic plan for the horse racing industry in Ontario. The report noted that the most critical issue at the time was "the weakening financial situation of the industry". With the changes to the new slots program as proposed in our Report, the industry has a solid base from which to mitigate this weakness.

The 1995 Report also identified "divisiveness within the industry" as a crucial weakness. This Panel, having noted the continuation of this divisiveness, has recommended a new framework for governance that should bring resolution to this long-standing issue.

While addressing these major challenges, the industry must also actively turn its attention to mitigating the third area of critical weakness. The 1995 Report found that there exists in the industry a "strong culture-resistance" to change. The Report further noted:

> Relative to competing sports, the industry has not changed the way it presents and packages the core product – the race. The industry has a weak market image, as well as a narrow and aging customer base …(T)he Ontario horse racing industry has a large number of opportunities. These opportunities range from marketplace opportunities – niche markets, teletheatres, use of emerging technologies, interactive gaming, and positioning racetracks as destination concepts with a variety of entertainment options, to improving the quality of the simulcast product to acceptable TV standards

Some improvements have certainly been made since 1995, but these same messages continue to resonate in 2008.

A number of representations made to this Panel identified important and essential opportunities for innovation within the industry. These include but are not limited to the following:

Innovative Bets

- V75 lottery bets as exist in Sweden that ties a lottery-type ticket and jackpot to the results of a number of live horse races that take place at the end of the week. These races may combine standardbred and thoroughbred product. Introducing a bet such as this will involve the joint efforts of HRO and the OLG
- New types of pari-mutuel wagers on races where the customer states the amount of the wager – the 'Flexibet'
- Fixed Odds Wagering
- Super High Five Bet – The bettor must pick the first five finishers in the correct order. This bet is used at Churchill Downs
- Pari-mutuel bets on sports events. As the industry has the exclusive right to engage in pari-mutuel wagering under the Criminal Code of Canada, pari-mutuel wagering on sports events should be explored
- With the co-operation of the OLG, wagers relating to horse racing can be developed, such as a 'daily double' ticket that can win a bet on a horse race

Innovative Delivery Models

- With the co-operation of the OLG, wagering on a horse race can take place at an OLG lottery terminal
- Locate self-serve betting machines in convenience stores, coffee shops etc.
- Locate teletheatres in commercial-type and charity casinos
- Expand the use of attractive teletheatres and create and enforce standards
- Develop technology that allows wagering from hand-held devices (e.g. cell phones) and broadcast the racing signal on these devices.
- Develop and implement a consolidated/harmonized strategy for simulcasting Ontario horse racing product.

Innovative Horse Races

- Standardbred races of varying distances with varying field sizes and surfaces
- "Driver Challenge" programs complete with sponsors and marketing efforts; this could be on a circuit basis
- Events similar to "Extreme Horse Power" (Georgian Downs)

Innovative Partnerships

- Create alliances between the industry and host communities, tour operators, convention planners, retail outlets, telecommunication companies, television networks, agricultural products and service entities, and other racing jurisdictions

While all of the above constitute a number of ideas for innovation, perhaps the most important issue is who or what body will drives these initiatives forward. Innovative changes will require leadership – this is the new role envisioned for HRO.

Finally, the horse racing and breeding industry should play an active role in persuading government to clearly legalize and regulate the wagering on horse races on the internet. This is one part of a larger debate as to whether other areas of gambling, including internet poker games, should be legalized and regulated.

At the present time, many citizens of Ontario are wagering on-line on horse races. The internet sites are off-shore. Revenue is flowing offshore with little return to the horse racing industry except for a small payment for the racing signal. The costs of operating an internet gaming site represent a small fraction of the cost of offering live racing. Accordingly, internet operators are able to offer substantial rebates to horse players that further lures dollars off-shore.

Furthermore, regulation of these offshore sites is left to the jurisdiction in which they are located. A bettor in Ontario has virtually no real access to the regulator and no way of ensuring that there is integrity in the game.

It is practically impossible to enforce a prohibition on an Ontario citizen from online gambling off-shore. The government of Ontario has prohibited the advertising in Ontario of these sites but that is a small step forward. Short of the legalization and regulation of internet wagering on horse races, the Ontario government should at least prohibit the transfer of funds by financial institutions and payment facilitators as is done in the United States.

However, the best solution is to permit the horse racing and breeding industry to engage in internet wagering on horse races and to regulate the sites through both the Canadian Pari-Mutuel Agency and the ORC.

RECOMMENDATION 8

We recommend that:

i) **HRO set an aggressive time-line for the development and implementation of innovative wagering products, new and improved methods of delivery, races and partnerships.**

ii) **That HRO engage the Gaming Secretariat in considering the legalization and regulation of internet wagering on horse races.**

CHAPTER 9

FRAMEWORK FOR SOCIAL RESPONSIBILITY

The horse racing and breeding industry must move forward in a socially responsible manner. In particular, it must ensure that the equine athlete is protected and that those individuals that wager on horse races do so in a responsible manner.

The welfare of the equine athlete should guide all activities related to the training and racing of horses. The ORC and the Canadian Pari-mutuel Agency have major roles to play in this respect and they have responded by writing rules that deal with the administration of medications to racehorses, the abuse of horses (whether on the racetrack or elsewhere), whipping horses during a race, the creation of a death registry and by providing for the supervision of racing by official veterinarians. The industry must always be sensitive to the public's interest in seeing that racehorses are properly treated. This last point was dramatized by the breakdown of the second place finisher at this year's Kentucky Derby.

The industry has a history of supporting research that is focused on the equine athlete. For many years, the horse racing and breeding industry has supported research being conducted at Equine Guelph that, among other things, has focused on injuries incurred by horses on the racetrack, the impact on the horses' hooves, atrial defibrillation in the horse, respiratory diseases and reproduction. The funding of these research projects has been overseen by the ORC to ensure that the subject matter of each study relates to the wellbeing of the racehorse.

Funding for research, education and operations at Equine Guelph comes from HIP funds, OHHA, HBPA, the Quarter Horse industry, the E.P. Taylor Foundation and from the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA). At present, funding from the first four sources mentioned amounts to only approximately $460,000 per year.

This amount represents a tiny fraction of the total revenue of the horse racing and breeding industry. In our view, equine research deserves must greater support from the industry as a whole. It is for this reason that we have recommended that a portion of slot revenue be dedicated to ongoing research and education.

It will be for HRO to determine the budget that should be allocated for research and education at Equine Guelph. However, in our view, it should amount to a minimum of $2M annually and should increase as slot funds become more available to HRO. Needless to say, HRO will have the responsibility for approving the funding for specific research projects, as the research conducted should remain focused on the racehorse and its performance at the racetrack.

HRO should become a partner of Equine Guelph in helping it become a world leader in equine research as it relates to horse racing. This will support the equine athlete that is at the centre of the horse racing and breeding industry and will demonstrate to the public the industry's commitment to the horse.

RECOMMENDATION 9

We recommend that HRO should initially establish a budget for research and education in a minimum amount of $2M annually and that the amount should increase as slot funds become more available.

The industry should also be concerned with the welfare of racehorses after they retire from racing. There are both standardbred and thoroughbred organizations that arrange for the adoption of racehorses after their racing careers have ended. HRO should consider supporting these organizations.

RECOMMENDATION 10

We recommend that HRO should support organizations that arrange for the adoption of racehorses after their racing careers have ended.

Of all of the forms of gambling, wagering on horse racing is an activity that attracts a relatively low incidence of problem gamblers. In the past, OHRIA has made some efforts to alert horse racing customers of the risks associated with gambling, but these efforts have been modest.

At approximately the same time that the government established the Slots at Racetracks Program, it determined that 2% of the revenue from those slots and the slots at charity casinos should fund a Problem Gambling Strategy. This formula generates approximately $35M annually.

The administrative responsibility for the Strategy was given to the Ministry of Health and Long-Term Care. The Strategy is comprised of three principal components; treatment of problem gamblers, prevention and education, and, research. Subsequently, the latter two components were transferred to a newly created ministry, the Ministry of Health Promotion.

The Ministry of Health Promotion has a sizeable budget that is earmarked for the prevention of problem gambling and education. It also has responsibility with health promotion in relation to other addictive behaviour. In our earlier chapter on Governance at the Provincial Level, we recommended that the new Gaming Secretariat should take over the administration of the Problem Gambling Strategy. This will best ensure that funds that are earmarked for gambling issues are not diverted to other areas. HRO should work with the Secretariat in order to ensure that appropriate programs are developed for and delivered to people who wager on horse races.

In Chapter 7 of this report, we recommend that HRO should engage in marketing the Ontario racing product to young adults. Young adults is a group that is particularly prone to the problems of compulsive gambling. This should be kept in mind in relation to programs designed to educate gamblers of the dangers of addiction.

In our view, a proactive approach to these social issues is a responsible way for the industry to act and will better ensure the public's support.

RECOMMENDATION 11

We recommend that HRO should work with the Gaming Secretariat in order to ensure that appropriate problem-gambling programs are developed for, and delivered to people who wager on horse races.

CHAPTER 10

THE SPECIAL PROBLEMS OF ‘BORDER RACETRACKS”

During the course of our consultations with stakeholders, we received submissions with respect to the particular issues that are impacting a number of specific horse racing locations.

When the government of Ontario decided to expand its gaming facilities, it began by opening commercial-type casinos at Windsor (1994) and Niagara Falls (1996), cities that bordered the United States. This proved to be a very successful initiative as hundreds of thousands of visitors from the United States crossed the border to gamble.

Windsor Raceway was the first standardbred racetrack to open a slot facility in Ontario in December 1998. Those were heady days as Windsor sits just across the Canada/U.S. border from Detroit, Michigan. There were no casinos or slot facilities in Michigan at that time and approximately 80% of Windsor Raceway’s customers came from the United States.

Today, there are three commercial casinos in Detroit. At times, there are difficulties crossing the border. There is a smoking ban in Windsor Raceway’s slot facility, but not in Michigan, and the U.S. dollar no longer commands a premium. All of this has impacted negatively particularly on Windsor Raceway’s share of slot revenue.

Fort Erie Racetrack is a Category B, thoroughbred racetrack located approximately one mile from the Peace Bridge crossing into the United States. It is a lovely facility with a long history.

As with the case of Windsor, the environment that existed when Fort Erie opened its slot facility in 1999 was very different than it is today. Now there is casino gambling in New York State and a new thoroughbred racetrack and slot facility has opened in Erie, Pennsylvania, which is approximately 100 miles from Fort Erie. The same difficulties exist in Fort Erie as Windsor, with respect to crossing the border, the smoking ban in Fort Erie - while smoking is permitted in New York State, and the U.S. dollar no longer commands a premium against the Canadian dollar. All of this has impacted negatively on the Fort Erie Racetrack and, as with the case of Windsor, particularly on its share of slot revenue.

Both the Fort Erie Racetrack and Windsor Raceway are struggling to survive as racetracks. Fort Erie is seeking to develop its property by adding other commercial, residential and entertainment offerings and it seeks the assistance of the Town of Fort Erie and the provincial government. Windsor Raceway is seeking to develop an Ice Track that will offer sporting opportunities to the community.

Both the Fort Erie Racetrack and Windsor Raceway were acquired by new, private ownership after slots were introduced at their respective facilities and both incurred substantial debts as a result of the purchases. There is no doubt that external forces have impacted negatively on both Fort Erie and Windsor that may not have been foreseen when their current owners were assessing their respective business prospects.

If the development proposals of Fort Erie make economic sense, we encourage the provincial government to consider providing support. This is principally an economic development issue and not a horse racing matter. If diversification at Fort Erie Racetrack leads to stability of the racing enterprise, that will surely inure to the benefit of horse racing. If these plans are likely to go forward, we encourage the provincial government to provide a level of interim subsidization for Fort Erie unconnected to slot revenue in order to keep the track 'alive' in the interim.

As for Windsor Raceway, we support its efforts to diversify with a view to bringing stability to its horse racing operation. As indicated earlier in this Report, purse pooling with Woodstock and Dresden (standardbred racetracks that Windsor Raceway operates) is a means of assisting Windsor and should be considered by HRO if Windsor Raceway places this issue before it and if Windsor Raceway is prepared to upgrade its facilities and concentrate on increasing wagering at Windsor Raceway, Dresden and Woodstock.

Most importantly, with a province-wide gaming strategy in place, the Gaming Secretariat can review the situations of both Windsor Raceway and Fort Erie Racetrack and make decisions as to how Ontario's other gaming facilities might assist. The operations of the commercial casino in Windsor, for example, could be tailored with a view to assisting the gaming enterprise at Windsor Raceway. Similarly, the operations of the two commercial casinos in Niagara Falls could play a role in assisting Fort Erie. If gaming in these two areas of the province was considered as a whole rather than facility by facility, a great deal could be accomplished by enhancing individual operations and making adjustments that

could support the objective of sustaining jobs, particularly in the agricultural sector, rather than simply maximizing provincial revenue.

Hiawatha Horse Park is approximately five miles from both the United States border and the OLG's charity casino at Point Edward. Hiawatha opened its slot facility in 1999 and the Point Edward Charity Casino opened in 2000. Hiawatha alleges that it has been placed at a competitive disadvantage as a result of the existence of card table games, dice and roulette at Point Edward.

Rideau Carleton Raceway is located in Ottawa and borders the Province of Quebec. A large commercial-type casino is located in Hull, Quebec, just across the border with Ontario. Rideau Carleton also alleges that it has been placed at a competitive disadvantage as a result of the existence of card table games, dice and roulette at the Hull casino and because it is subject to a smoking ban that does not exist in Quebec.

While not a 'border racetrack', Woodbine Racetrack also alleges that it competes with both the commercial-type casinos at Niagara Falls and Orillia (Rama), particularly because those casinos offer card table games, dice and roulette.

Windsor Raceway, Fort Erie Racetrack, Hiawatha Horse Park, Rideau Carleton Raceway and Woodbine Racetrack all request that card table games should be introduced at their respective slot facilities with a share of the revenue going to the industry. These requests are logical and raise the very issues that a Gaming Secretariat should consider. A comprehensive gaming strategy for the province can recognize the important role that these racetracks and their horsepeople play in the gaming sector and in the agricultural sector of Ontario economy. In contemplating whether additional forms of gaming should be introduced to these racetracks, consideration should be given to the degree to which these racetracks have sought to improve wagering on their respective products and are thereby candidates for support.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 1

The government should establish a Gaming Secretariat with responsibility to:

i) **Develop and implement a comprehensive gaming strategy for the province that includes the horse racing and breeding industry**

ii) **Coordinate the activities of each sector of gaming including horse racing, promote relationships and co-operation between the various sectors and ensure that decisions that are made take into account their potential impact on all sectors**

iii) **Advise government on the expansion or contraction of gaming**

iv) **Advise government on the structure and funding of all provincially-funded programs related to gaming including the Slots at Racetracks Program and oversee the expenditure of the funds**

v) **Advise government on federal/provincial issues related to gaming including internet gaming**

vi) **Oversee the province's Problem Gambling Strategy**

RECOMMENDATION 2

We recommend that OHRIA be reconstituted as a Corporation to be known as HORSE RACING ONTARIO (HRO) based on the following framework:

i) **The membership on the Board of HRO should be comprised of the following: one senior official from WEG; one senior official from a not-for-profit racetrack other than WEG; one senior official from a for-profit racetrack; the presidents of each of the following organizations – the Ontario Quarter Horse Association, the Canadian Thoroughbred Horse Society, the Standardbred Breeders of Ontario Association, the Ontario Harness Horse Association and the Horsemen's Benevolent and**

Protective Association; and three independent members appointed by the government of Ontario. The three government appointees should be appointed for three-year terms with the option for renewal for one further three-year term.

ii) The Chair of HRO should be elected by the Board of HRO for a term determined by HRO's by-laws. The Executive Director of HRO should be appointed by the Board of HRO.

iii) A majority vote of the Board of HRO shall govern and determine all matters brought before it.

iv) The Board of HRO will decide all economic industry issues and disputes among industry stakeholders, including the fixing of race dates, but excluding those disputes that relate to the contracts between individual racetracks and their respective horsemen's associations.

v) The Board of HRO should develop the details of an industry strategic plan and inform the Gaming Secretariat with respect to any matter involving the distribution of funds derived from the Slots at Racetracks Program as described below.

vi) HRO will require and enforce the obligation of all industry stakeholders to provide comprehensive economic data pertaining to slot revenue as directed by HRO's Executive Director.

vii) HRO will structure and administer all province-wide programs affecting the industry such as the HIP Program, the Quarter Horse Industry Development Plan, the oversight of the expenditure of funds generated by the reduction of the tax on pari-mutuel wagering, the branding of horse racing and a comprehensive horse racing marketing strategy. In addition, HRO could also undertake industry-wide benefit plans for individual participants and education, training, accreditation and horse-ownership programs.

viii) HRO will terminate the funding from the Slots at Racetracks Program to any industry stakeholder that fails to become a

member of the Board of HRO, fails to participate in the Board's deliberations or fails to abide by the final decisions rendered by the Board of HRO, including decisions with respect to meeting industry benchmarks. The flow of slot funds would resume when the stakeholder is no longer in default. Slot funds that are withheld from stakeholders will be retained by HRO and applied to fund its programs and undertakings.

ix) HRO will terminate the funding from the Slots at Racetracks Program to any industry stakeholder that is involved in a dispute related to a contract between an individual racetrack and a horsemen's association that results in a cessation of live racing. The flow of slot funds would resume when the dispute is resolved. Slot funds that are withheld from stakeholders will be retained by HRO and applied to fund its programs and undertakings.

x) HRO will consult with the ORC on issues related to the integrity of horse racing, on the promulgation and/or amendment of the Rules of Racing by the ORC and on administrative issues such as the provision by the ORC of the necessary racing officials on race dates.

xi) HRO should advise the Gaming Secretariat on all policy issues affecting the horse racing industry.

xii) The operational funding for HRO will come from the funds made available to the industry by the Slots at Racetracks Program.

RECOMMENDATION 3

We recommend that the horse racing and breeding industry fund HRO immediately so that it can re-structure itself as set out above and commence to deal with its new decision-making mandate and the economic issues that come before it prior to the implementation of the New Slots Program. HRO should also begin to structure the programs that will be created under the New Slots Program

RECOMMENDATION 4

We recommend:

i) **That the Ontario Racing Commission return to its mandate to regulate all aspects of horse racing that are designed to protect the public interest by insuring the highest level of integrity, and that it cease to be involved in economic issues that affect the industry as soon as HRO is prepared to take over that function.**

ii) **That the budget of the Ontario Racing Commission be adjusted in consultation with the Ministry of Government and Consumer Services and HRO to reflect the above change.**

iii) **That the ORC consult with HRO on issues related to the integrity of horse racing, on the promulgation and/or amendment of the Rules of Racing by the ORC and on administrative issues such as the provision by the ORC of the necessary racing officials on race dates.**

iv) **That the ORC licence and regulate all horsepeople associations.**

v) **That the ORC participate in any horse racing and breeding industry advisory committee that the Gaming Secretariat may establish.**

RECOMMENDATION 5

We recommend that:

i) **HRO undertake the annual collection and analysis of data and reporting of results against standard benchmarks.**
ii) **The benchmarks will not require collection of confidential data.**
iii) **The benchmarks will include:**
  a. **For measuring people: the number and type of licences issued by the ORC in total and to Ontario residents; and the number of breeders registered with a breeders' association**
  b. **For measuring horses: the number of foals registered by breed; the number of yearlings sold by breed, in total and to Ontario owners; the number of stallions and broodmares standing and resident in Ontario by breed; the total number of starters by breed, in total and resident in Ontario; the**

number of Ontario-bred starters by breed; the number of Ontario-bred winners, by breed, in total and resident in Ontario

c. **For measuring money: total wager by racetrack; total wager on Ontario product from within Ontario and by racetrack; total wager on foreign product from within Ontario and by racetrack; total live wager and by racetrack; total wager on Ontario product from foreign jurisdictions and on each racetrack; the value of yearlings sold by breed in total and to Ontario owners; the slot portion of purses by breed and by racetrack; slot revenue of racetracks including purse savings from any incentive-based race purse; funds spent by each racetrack on its racing infrastructure, including the provision of established minimum customer amenities and teletheatres that meet established minimum standards.**

RECOMMENDATION 6

We recommend that Alternative iii) be adopted as the method for introducing the New Program. This Alternative provides that all Site Holder Agreements that are due to expire prior to December 2011 be extended on their existing terms until December 31, 2011. As of January 1, 2012, the New Program would take effect subject to the Five Agreements that will continue to remain in place until they reach their respective termination dates.

RECOMMENDATION 7

We recommend that:

i) **Whenever the New Program comes into effect, all of the funds payable to the industry from slot machines at the racetracks are pooled.**

ii) **The total amount payable into the Slot Funding Pool in each of the three years following the commencement of the New Program shall be 20% of the slot revenue generated at all of the racetracks. The amount payable should be reviewed after three years.**

iii) **Out of the pooled fund, money will be paid to HRO to fund its costs of operation, the cost of branding and generic marketing**

of Ontario horse racing, the investment in research that will enhance and protect the racehorse, and, the investment in the development of innovative technology and new betting products.

iv) Out of the pooled fund, payments equal to 25% of the slot revenues generated at each racetrack will then be paid to both the racetrack and to its respective horsepeople for purses.

v) The balance of the pooled funds (the “New Program Funds”) will then be paid to HRO and distributed in accordance with the programs and initiatives established under the New Program.

RECOMMENDATION 8

We recommend that:

i) HRO set an aggressive time-line for the development and implementation of innovative wagering products, new and improved methods of delivery, races and partnerships.

ii) That HRO engage the Gaming Secretariat in considering the legalization and regulation of internet wagering on horse races.

RECOMMENDATION 9

We recommend that HRO should initially establish a budget for research and education in a minimum amount of $2M annually and that the amount should increase as slot funds become more available.

RECOMMENDATION 10

We recommend that HRO should support organizations that arrange for the adoption of racehorses after their racing careers have ended.

RECOMMENDATION 11

We recommend that HRO should work with the Gaming Secretariat in order to ensure that appropriate problem-gambling programs are developed for and delivered to people who wager on horse races.

Appendix A

List of Written Submissions Received

	Stakeholder Organization	Individual
1	Equine Guelph	Alan Wildeman
2	Standardbred Horse Owner’s Panel (SHROP)	Tom Brodhurst
3	Western Fair Raceway	Hugh Mitchell
4	Ontario Harness Horse Association (OHHA)	John Walzak
5	Ontario Horse Racing Industry Association (OHRIA)	Hector Clouthier
6	LongRun Thoroughbred Retirement	Vicki Pappas
7	Horsemen’s Benevolent and Protective Association (HBPA)	Sue Leslie
8	Fort Erie Racetrack	Bonnie Loubert
9	National Capital Region Harness Horse Association	Gordon McDonald
10	Hiawatha Horse Park	Robert Locke
11	Windsor Raceway Inc.	Chris Kruba
12	Public	Lynda Tanaka
13	Public	Dan Mayo
14	Jockey Club of Canada	Dick Bonnycastle
15	Standardbred Breeders Association of Ontario	Dr. Brett Anderson
16	Public	Grant Cockburn
17	Public	Glenn Bechtel
18	Grand River Raceway	D.E. Clarke
19	Responsible Gambling Council	Jon E. Kelly
20	Woodbine Entertainment Group	Jane Holmes
21	Great Canadian Gaming Corp	Bruce Barbour
22	Sudbury Downs	Andrew McIsaac
23	QROOI	Bob Broadhurst
24	Trot Magazine, Editor	Darryl Kaplan
25	Canadian Auto Workers Union (CAW)	Brian D. Henderson

Appendix B

List of Stakeholder Meetings with the Panel

Association	Individuals
Ontario Lottery & Gaming	Larry Flynn, Alexandra Aguzzi, Jake Pastore, Kelly McDougald
Ontario Racing Commission	John Blakney, Rod Seiling
Ontario Horse Racing Industry Association	Hector Clouthier, Hugh Mitchell, Sue Leslie, Nick Eaves, Glenn Sikura
Horsemen's Benevolent and Protective Association	Sue Leslie, Nick Coukos
	Lynda Tanaka
Western Fair Raceway	Hugh Mitchell
Hiawatha Horse Park	Robert Locke, Jim Henderson
Standardbred Horse Owner's Panel	Marvin Chantler, Tom Brodhurst, J. Scott Rowe, Louis Liebenau
Standardbred Breeders Association of Ontario	Jim Bullock, Tammy McNiven, Kenneth Grant
Nordic Gaming	Bonnie Loubert, Herb McGirr
Windsor Raceway Inc	Tony Toldo, Chris Kruba, Brad Drewitt
Grand River Raceway	Ted Clarke
University of Guelph	Alan Wildeman, Gayle Ecker, Elizabeth Stone, Alan Meek, Jeff Thomason, Jim Whelan, Rob McLaughlin
Ontario Harness Horsemen's Association	Jim Whelan, Jon Snobelin, John Walzak
Canadian Pari-Mutuel Agency	Tim Pettipas, David Liston, Rande Sawchuk
Northern Capital Region Harness Horsemen's Association	Gordon McDonald, Sharla Daley, Russ Moulton
Rideau Carleton Raceway	Warren Armstrong, Terry Lantz, Mike Reid, Peter Andrusak
Woodbine Entertainment Group	David Wilmot, Jane Holmes, Jamie Martin
Ajax Downs	Norm Picov, Ken Richards
Standardbred Canada	Ted Smith
Sudbury Downs	Andrew McIsaac, Patrick McIsaac, Ken LeDrew, Steve Burke

Appendix C
Racetrack Purses 2007- Standardbred: Group 1

	Mohawk	Woodbine
# of Race Dates:	105	170
Type of Race	**Purse Value ($)**	
Claiming $2,000		
Claiming $3,000		
Claiming $3,500		
Claiming $4,000		
Claiming $4,500		
Claiming $5,000		
Claiming $5,500		
Claiming $6,000		
Claiming $6,500		
Claiming $8,000		
Claiming $8,500		
Claiming $12,000	10,000	10,000
Claiming $15,000	11,000	11,000
Claiming $18,000	13,000	13,000
Claiming $27,000	17,000	17,000
Claiming $33,000	21,000	21,000
Claiming $40,000 HP	24,000	24,000
Preferred	36,000	36,000
Preferred 2		
Open	45,000	45,000
$10,000 Open Claim		
F&M Claiming $4,500		
F&M Claiming $5,000		

Appendix C
Racetrack Purses 2007- Standardbred: Group 1

	Mohawk	Woodbine
Type of Race	**Purse Value ($)**	
F&M Open	40,000	40,000
F&M Preferred		
NW $400 PSCD		
NW $12,000 LGS	18,000	18,000
NW $26,000 LGS	26,000	26,000
NW $38,000 LGS	32,000	32,000
NW $10,000 LCD		
NW $12,500 LCD		
NW $15,000 LCD		
NW $30,000 LCD		
NW $1,500 L3 CD		
NW $2,000 L3 CD		
NW $2,000 L4 CD		
NW $10,000 L5 CD		
NW 2R $25,000 L	17,000	17,000
OP $15,000 Claim		
OP $30,000 Claim	18,000	18,000
OP $60,000 Claim	26,000	26,000
2-5 Yr Old Maiden		

Appendix C
Racetrack Purses 2007- Standardbred: Group 2

	Flamboro Downs	Windsor Raceway
# of Race Dates:	223	110
Type of Race	**Purse Value ($)**	
Claiming $2,000		
Claiming $3,000		
Claiming $3,500		
Claiming $4,000		
Claiming $4,500	4,300	
Claiming $5,000		3,800
Claiming $5,500		
Claiming $6,000		5,000
Claiming $6,500	5,800	
Claiming $8,000	5,300	4,500
Claiming $8,500	7,400	
Claiming $12,000		
Claiming $15,000	9,500	8,000
Claiming $18,000		
Claiming $27,000		
Claiming $33,000		
Claiming $40,000 HP		
Preferred	12,000 W 20,000 S	12,000
Preferred 2		
Open		
$10,000 Open Claim		
F&M Claiming $4,500	4,300	
F&M Claiming $5,000		

Appendix C
Racetrack Purses 2007- Standardbred: Group 2

	Flamboro Downs	Windsor Raceway
Type of Race	**Purse Value ($)**	
F&M Open		
F&M Preferred	15,200	
NW $400 PSCD	8,600	
NW $12,000 LGS		
NW $26,000 LGS		
NW $38,000 LGS		
NW $10,000 LCD		
NW $12,500 LCD		
NW $15,000 LCD		
NW $30,000 LCD		
NW $1,500 L3 CD		
NW $2,000 L3 CD		
NW $2,000 L4 CD		6,000
NW $10,000 L5 CD		12,000
NW 2R $25,000 L		
OP $15,000 Claim		
OP $30,000 Claim		
OP $60,000 Claim		
2-5 Yr Old Maiden		

Appendix C
Racetrack Purses 2007- Standardbred: Group 3

	Georgian Downs	Grand River	Hiawatha	Kawartha Downs	Rideau Carleton	Sudbury Downs	Western Fair
# of Race Dates:	93	65	52	105	154	64	130
Type of Race	**Purse Value ($)**						
Claiming $2,000						1,800	
Claiming $3,000							2,800
Claiming $3,500							2,800
Claiming $4,000			2,600	3,000		3,600	
Claiming $4,500							
Claiming $5,000	4,500	4,000			3,600		3,800
Claiming $5,500				3,800		4,500	
Claiming $6,000	5,000	4,500			4,500		5,000
Claiming $6,500							
Claiming $8,000							
Claiming $8,500							
Claiming $12,000							
Claiming $15,000							
Claiming $18,000							
Claiming $27,000							
Claiming $33,000							
Claiming $40,000 HP							
Preferred		13,000	15,000	15,000		11,000	18,400
Preferred 2							
Open							
$10,000 Open Claim							
F&M Claiming $4,500							
F&M Claiming $5,000		4,000					3,800

Appendix C
Racetrack Purses 2007- Standardbred: Group 3

	Georgian Downs	Grand River	Hiawatha	Kawartha Downs	Rideau Carleton	Sudbury Downs	Western Fair
Type of Race	**Purse Value ($)**						
F&M Open							
F&M Preferred							15,200
NW $400 PSCD							
NW $12,000 LGS							
NW $26,000 LGS							
NW $38,000 LGS							
NW $10,000 LCD			8,000		6,500		6,500
NW $12,500 LCD							
NW $15,000 LCD		7,200	8,500				
NW $30,000 LCD							
NW $1,500 L3 CD			7,500			6,000	
NW $2,000 L3 CD							
NW $2,000 L4 CD							
NW $10,000 L5 CD							
NW 2R $25,000 L							
OP $15,000 Claim			9,500				
OP $30,000 Claim							
OP $60,000 Claim							
2-5 Yr Old Maiden							

Appendix C
Racetrack Purses 2007- Standardbred: Group 4

	Clinton	Dresden	Hanover	Woodstock
# of Race Dates:	20	25	31	27
Type of Race	**Purse Value ($)**			
Claiming $2,000				
Claiming $3,000				
Claiming $3,500	2,800			
Claiming $4,000		3,000		3,300
Claiming $4,500				
Claiming $5,000	3,800	3,600	4,000	4,000
Claiming $5,500				
Claiming $6,000				
Claiming $6,500				
Claiming $8,000				
Claiming $8,500				
Claiming $12,000				
Claiming $15,000				
Claiming $18,000				
Claiming $27,000				
Claiming $33,000				
Claiming $40,000 HP				
Preferred	18,000			
Preferred 2	12,000		10,000	
Open				
$10,000 Open Claim				9,000
F&M Claiming $4,500				
F&M Claiming $5,000	3,800	4,000	4,000	

Appendix C
Racetrack Purses 2007- Standardbred: Group 4

	Clinton	Dresden	Hanover	Woodstock
Type of Race	Purse Value ($)			
F&M Open				
F&M Preferred				
NW $400 PSCD				
NW $12,000 LGS				
NW $26,000 LGS				
NW $38,000 LGS				
NW $10,000 LCD				
NW $12,500 LCD			6,500	9,000
NW $15,000 LCD				
NW $30,000 LCD			7,800	12,000
NW $1,500 L3 CD		6,000	6,000	8,000
NW $2,000 L3 CD	8,000	7,500	6,500	9,000
NW $2,000 L4 CD				
NW $10,000 L5 CD				
NW 2R $25,000 L				
OP $15,000 Claim				12,000
OP $30,000 Claim				
OP $60,000 Claim				
2-5 Yr Old Maiden		5,200		

Appendix C
Racetrack Purses 2007- Thoroughbred

PURSES 2007 - THOROUGHBRED		
Typical Day Info:	**Fort Erie**	**Woodbine**
Daily Purse Distribution	$110,000	$450,000
9 Race Card Average Per Race	$12,000	$50,000
Purse Range	$8,000 - $16,000	$16,000 - $80,000
	A typical day would have the following races:	A typical day would have the following races:
	2 races at $4,000 claiming	1 race at $10,000 claiming
	2 races at $5,000 claiming	1 race at $20,000 claiming
	2 races at $7,500 claiming	1 race at $32,000 claiming
	1 race at $10,000 claiming	2 races at $40,000 claiming
	1 race at $16,000 claiming	1 race at $50,000 claiming
	1 race non claiming allowance level	3 races at the allowance (non claiming)
Race Dates 2007:	**84**	**170**